

CHINA MAIL

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No. 30,835 THURSDAY, NOVEMBER 9, 1939 Price: 10 Cts.

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THE INCOME TAX DEBATE

INCOME TAX, NOT ALTOGETHER surprisingly, completely dominated this afternoon's discussion in Legislative Council on Government's Budget proposals.

Unofficial Members, without exception, expressed themselves as firmly opposed to the introduction of income tax, with the Chinese members strenuous and unequivocal in condemnation.

HOLLAND DENIES RUMOUR

(SPECIAL TO "CHINA MAIL")

London, To-day.
Reliable information from The Hague denies rumours that Germany had served the Netherlands with an ultimatum which brought about the Belgo-Dutch peace appeal.

Political quarters here nevertheless consider that the appeal resulted from a German manoeuvre. German propaganda has spread in neutral countries rumours that Germany is intending drastic action against the Netherlands and Belgium.

TROOP CONCENTRATIONS

Troops have been concentrated on the Dutch and Belgian borders, while the German Government has reaffirmed its desire to respect the neutrality of both countries. Reasons for the manoeuvre are puzzling.

Either it is a bluff destined to hide Germany's true intentions and simultaneously bringing the neutral Governments to take the initiative wished by Germany, or it is designed to force the Allies to protect neutrals against Germany, thus justifying a German invasion.

COORDINATED ACTION

Well-informed quarters here are of opinion that the five Governments discussed at their meeting at The Hague the co-ordination of protection measures, and appealed for peace to prove to the world their absolute neutrality and good faith.—Havas.

WEATHER FORECAST:—North-east winds, moderate; fine to cloudy.

Attitude of the British Unofficials was, perhaps, most effectively expressed by the Hon. Mr. S. H. Dodwell, who, with no personal objection to income tax, said that the serious opposition of the Chinese community was the paramount issue and could not be ignored. The risk of a flight of capital was very real. Income Tax might be a dangerous experiment.

The Hon. Mr. Sydney Caine intervened early in the debate, with one of the most brilliant speeches ever heard in Hong Kong's legislative chamber, staunchly defending the Income Tax proposal, answering each objection, point by point.

The beauty of Income Tax, he said at one stage, is that adjustments can be made to meet hardships in a way impossible with any other tax. No other tax could be equally well guaranteed to avoid hitting the unfortunate business man who has made no profit.

The debate was opened by the Senior Unofficial Member, the Hon. Sir Henry Pollock.

Sir Henry said:—I have no comments to make on the Budget for 1940-41.

In regard to the proposed War Gift to the Imperial Government, as a resident of the Colony for 51 years, during 29 years of which time I have served as a Member of this Council, I make no apology for treating the making of this gift from the point of view of the welfare of this Colony rather than from the point of view of contributing what must, whatever actual annual sum in dollars is remitted to the Imperial Government, be a mere mite in the War Expenditure of Great Britain.

In taking this view I am supported by the Right Honourable the Secretary of State for the Colonies who clearly, and wisely, told us that "there should be as little disturbance as possible with the Colony's current activities and development schemes, so long as revenue to finance them would be forthcoming."

"CONSERVE OUR RESOURCES"
It is our duty, therefore, in this Council, in considering the amount of dollars to be remitted to the Imperial Government as a gift, to look ahead beyond the immediate present, and to conserve our resources for "current activities and development schemes."

I am convinced that it would not be prudent finance to make an annual contribution to the Imperial Government of a larger sum than \$3,000,000, in addition to the \$6,000,000, per annum which we have to pay for our ordinary Military Contribution and to the sum of nearly 2½ million dollars in respect of Defence and Special War Expenditure for 1940-41.

THREE POINTS
My reasons for holding this opinion are:—

(1) That nobody can foretell how long the present war will last, and, therefore, that we are not justified in

mortgaging our financial future for an indefinite period of time by sending out of the Colony annually more than three million dollars.

(2) That the total amount required to be voted eventually to complete the following items in Public Works Ex-

(Continued on Page 10)

POINTS FROM SPEECHES

Sir Henry Pollock: Income tax will seriously upset Chinese capitalists and industrialists in this Colony. Other taxes which would not involve the risk of injuring the trade and prosperity of this Colony ought to be substituted.

Mr. T. N. Chau: Official invasion of the "inner counter" of the Chinese business man means more than the disclosure of his business secrets.

Mr. M. K. Lo: The underlying idea is a free and spontaneous gift by the Colony to England and not a tribute to be exacted from an unwilling population.

Mr. Sydney Caine: The great beauty of an income tax is that if you have no income you pay no tax. I cannot follow Mr. Chau in his belief that humanity is divided into Chinese and the rest.

Mr. Li Tse-fong: In my opinion, the Government could fall back on the Colony's surplus balance.

Mr. Leo d'Almada: Prudence surely counsels its abandonment.

Mr. Shields: I would urge Government to examine alternatives.

Mr. Dodwell: The Committee now sitting may succeed in devising some method of making it less objectionable to our friends.

Mr. Pearce: The financial and commercial interests of the Colony and therefore its future prosperity will be affected.

Paris, To-day.

Berlin-Munich telephone communications were cut after the explosion in the beer cellar, states the Amsterdam correspondent of Havas.—Reuter.

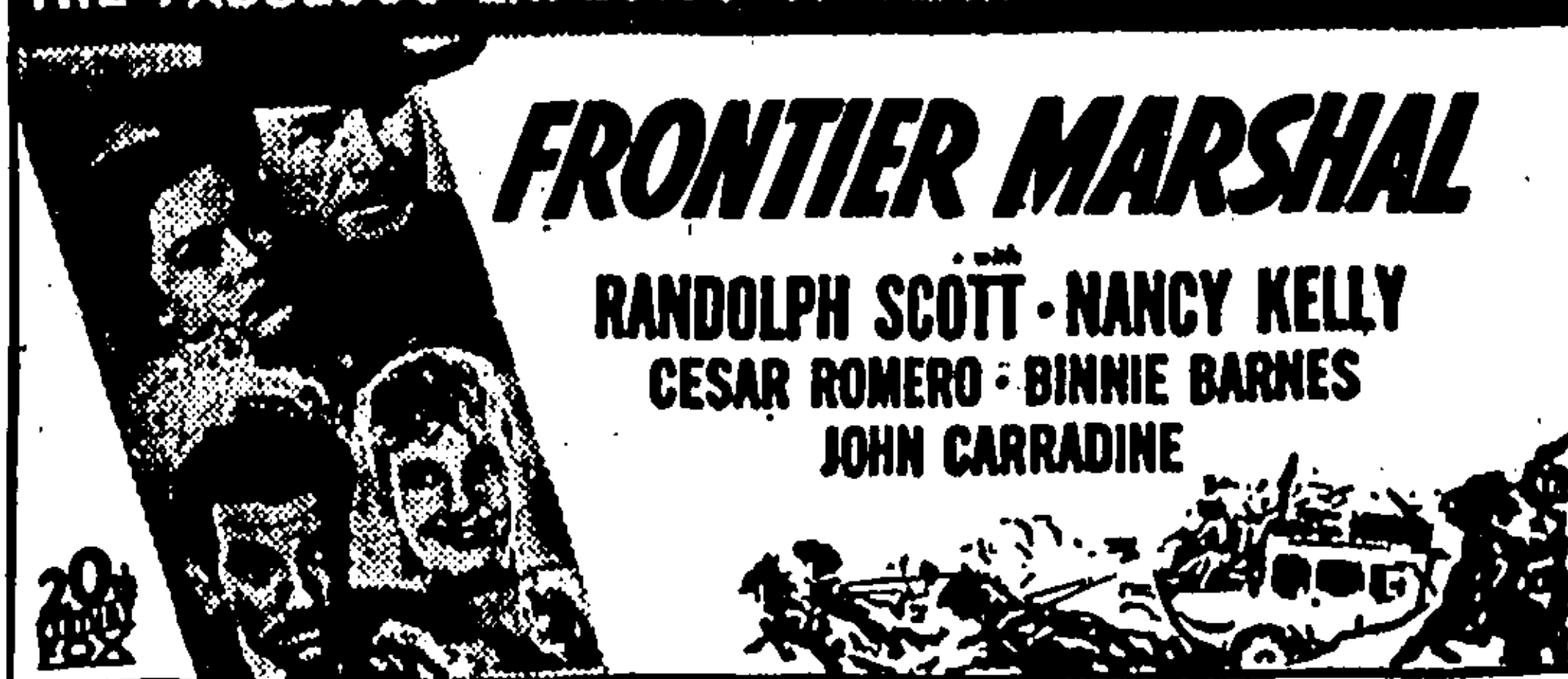


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SUGGESTION THAT EMPIRE SHOULD DRAW UP PEACE TERMS

London, To-day.

RE-AFFIRMATION OF New Zealand's position, that she will bring the utmost of her resources to the common cause, was made by Mr. Fraser, the Deputy Prime Minister of New Zealand, in a broadcast speech in London last night.

In the course of the speech, Mr. Fraser expressed the hope that the representatives of the Commonwealth now in London would examine the possibility of formulating the terms upon which, at some stage, peace could be firmly secured and honourably based.

The Commonwealth, he said, was in such a strong position that even the wilfully blind could not interpret such a step as a sign of weakness.—Reuter.

MEETING OF OSLO POWERS

Copenhagen, To-day.

The meeting of the Oslo Powers which have been discussing various problems arising out of the war concluded yesterday, after four days of discussions.

No communique was issued, but it was stated that technical questions of interest to neutral powers were dealt with.—Reuter.

ANOTHER CONGRESS RESIGNATION

New Delhi, To-day.

The Congress Ministry of the Central Provinces has now resigned, the seventh to do so in protest at the Viceroy's statement on the British plans for India.—Reuter.

ITALIAN ATTACKS ON MOSCOW

Rome, To-day.

The Italian press continues to attack the statements from Moscow.

Count Ciano's paper "Telegrafo" says that Moscow's denunciation of what it called the imperialist aims of Britain, France and Germany indicated that there was no perfect agreement between the Soviet and the Reich.

Moscow was not working for peace, but for war, as was shown by her intervention in China and Spain.

Signor Gayda, in "Giornale d'Italia," refers to the Soviet Union's policy of aggrandisement. For 20 years, Moscow had worked for war, counting on a Communist world revolution.—Reuter.

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ABORTIVE AFGHAN PLOT

New Delhi, To-day.

All the ringleaders of the abortive conspiracy formed early in September to start a rising in Afghanistan simultaneously with the outbreak of the European War have now surrendered to the Government.

The ringleaders, who were Afghan supporters of the former King, Amanullah, had previously fled from Kabul.

The collapse of their attempt to foment anti-Afghan riots from Tirah, near the Khyber Pass, is regarded as greatly improving the situation in this area.—Reuter.

POLISH LEADERS GOING TO LONDON

London, To-day.

The Polish Prime Minister and Foreign Minister will be visiting London some time next week as the guests of His Majesty's Government.—British Wireless.

Japanese sailors pirated junk No. 1214, belonging to Chan Ming, at 1.30 a.m. yesterday off Lin Tin Island. Cargo valued at \$448 was stolen.

LATVIAN TRADE WITH GERMANY

SPECIAL TO "CHINA MAIL" RIGA, TO-DAY.

A LATVIAN DELEGATION IS GOING TO BERLIN SHORTLY TO NEGOTIATE A TRADE TREATY WITH THE REICH.

On the other hand the Latvian Ministry of Public Welfare has ordered the dissolution of all German organisations in Latvia in accordance with the German-Latvian accord providing for repatriation of the German minority.

Two big steamers carrying 5,000 Germans left Stettin and Gdynia yesterday.—Havas.

SCHMELING IN LISBON

(SPECIAL TO "CHINA MAIL")

Lisbon, To-day.

Max Schmeling, former world heavyweight boxing champion, arrived here from Spain yesterday.

Max told newspapermen that he is not returning to America but is proceeding soon to Berlin via Spain.—Havas.

POLICE ON ALERT

The Police in Hong Kong were alert yesterday.

A total of 19 larcenies were committed the police managed to arrest 17 of the persons alleged to be responsible for the thefts!

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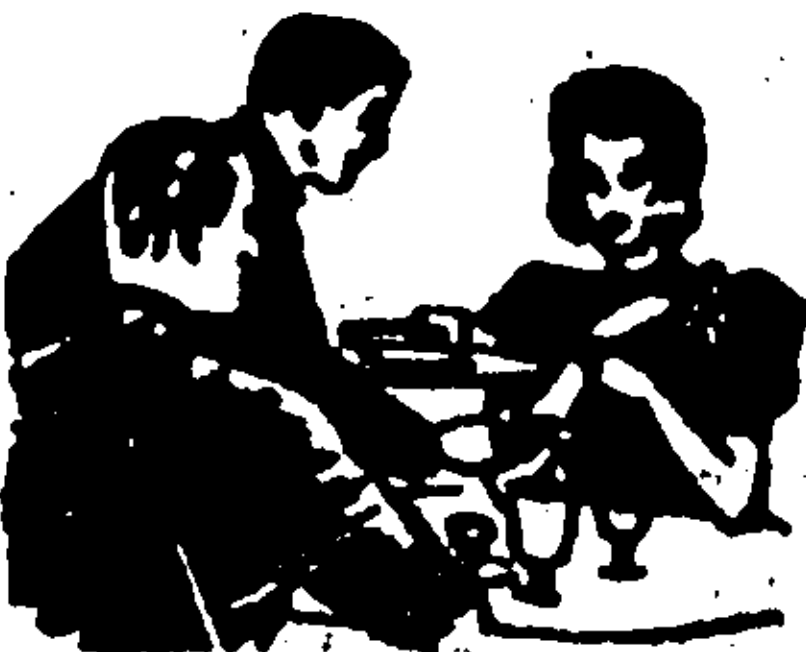
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HITLER GIVES ANSWER TO PEACE APPEAL: GETTING READY FOR 5-YEAR WAR

Munich, To-day.
IN CHARACTERISTICALLY vehement terms, Herr Hitler last night gave what was tantamount to an answer to the peace appeal issued by Queen Wilhelmina and King Leopold from the Hague.

It amounted to a summary refusal to discuss the matter any further, his main point being that he has given Goering orders to prepare for a five years' war.

Hitler spoke in the famous Beer Cellar itself.

He started in a voice which was hesitating and suggested fatigue, and referred to the "terrible catastrophe" of the last war.

Then, he said, the enemies of Germany had only a weak government in Germany to face.

VITUPERATIVE ATTACK

After a vituperative attack on Britain and a sarcastic reference to Britain's war aims, he declared:

"Britain is fighting to free the German people from militarism to such an extent that it will be unnecessary for Germany to carry arms, and thus make her liberation complete."

Hitler then referred to criticisms of himself saying: The British Ministers declare they would be glad to come to an agreement if they could trust the words of the German Government. I could say exactly the same myself.

Pursuing the theme, he proceeded to accuse Britain of breaking the pledges made during the last war, in consequence of which Germany was disarmed only to be deceived.

GERMANY'S ARMY

To-day, he said, Germany's army is unequalled, backed by people of a compact unity unparalleled in history.

"If Britain started granting their own Empire full liberty by restoring the freedom of India, we should have bowed before."

In conclusion, Hitler declared: There will be one victor in this war, and that will be Germany.—Reuter.

A.A. GUNS FIRE ON PLANE

Amsterdam, To-day.
Anti-aircraft guns have opened fire yesterday on an unidentified plane.—Reuter.

GERMAN THREAT TO HOLLAND

London, To-day.
"The Times" in an editorial comment on the Belgo-Dutch peace appeal, says "Our minimum terms are stereotyped in the Prime Minister's words: Our purpose is well-known. It is to redeem Europe from the perpetual recurring fear of German aggression and enable the peoples of Europe to preserve their independence, and liberties."

It is certain, says "The Times," that in no circumstances could this declaration of policy be compromised and it is necessary to add that we are pledged not to treat for peace without the participation of the Government of Poland.

RUMOURS OF DANGER

It is no reflection on the disinterested character of the Queen's and King's desire for peace to surmise that the moment chosen may have some connection with current rumours of danger to the neutrality of their countries.

Each is ominously accused in German propaganda of unneutral conduct, the one in tolerating a free press which dares to criticise German policy; the other in acquiescing in the exercise of Britain of the blockade rights allowed by international law.

Observing the fate of other small countries on the German border they can scarcely help wondering with foreboding what these charges portend.

GERMAN THREATS

A German threat of invasion of Holland perhaps prompted the peace proposals.

Dutch flooding of the frontier zone would be a considerable, but not an insuperable obstacle to a rapid German advance, which would entail the occupation of a position with shorter lines of attack upon Britain.—Reuter.

NO APPROACH MADE TO AMERICA

Washington, To-day.
The Secretary of State, Mr. Cordell Hull has stated that the Belgian and Dutch Governments have not made direct communication with the United States regarding their joint peace appeal, nor has the United States been requested to collaborate and participate in the effort to end the war.—Reuter.

AMAZING DUTCH SPY STORY

Amsterdam, To-day.
The arrest of four Germans at Hengelo, near the German-Dutch frontier is the latest development in the big "uniforms" spy case which all Holland is following with tense interest.

The arrests and disclosures followed the discovery a few days ago of Dutchmen, allegedly attempting to smuggle Dutch uniforms of various types to Germany.

Yesterday's arrests were the sequel to an incident at Deventer on Tuesday, when a man speaking with a German accent, tried to purchase a Dutch military cap.

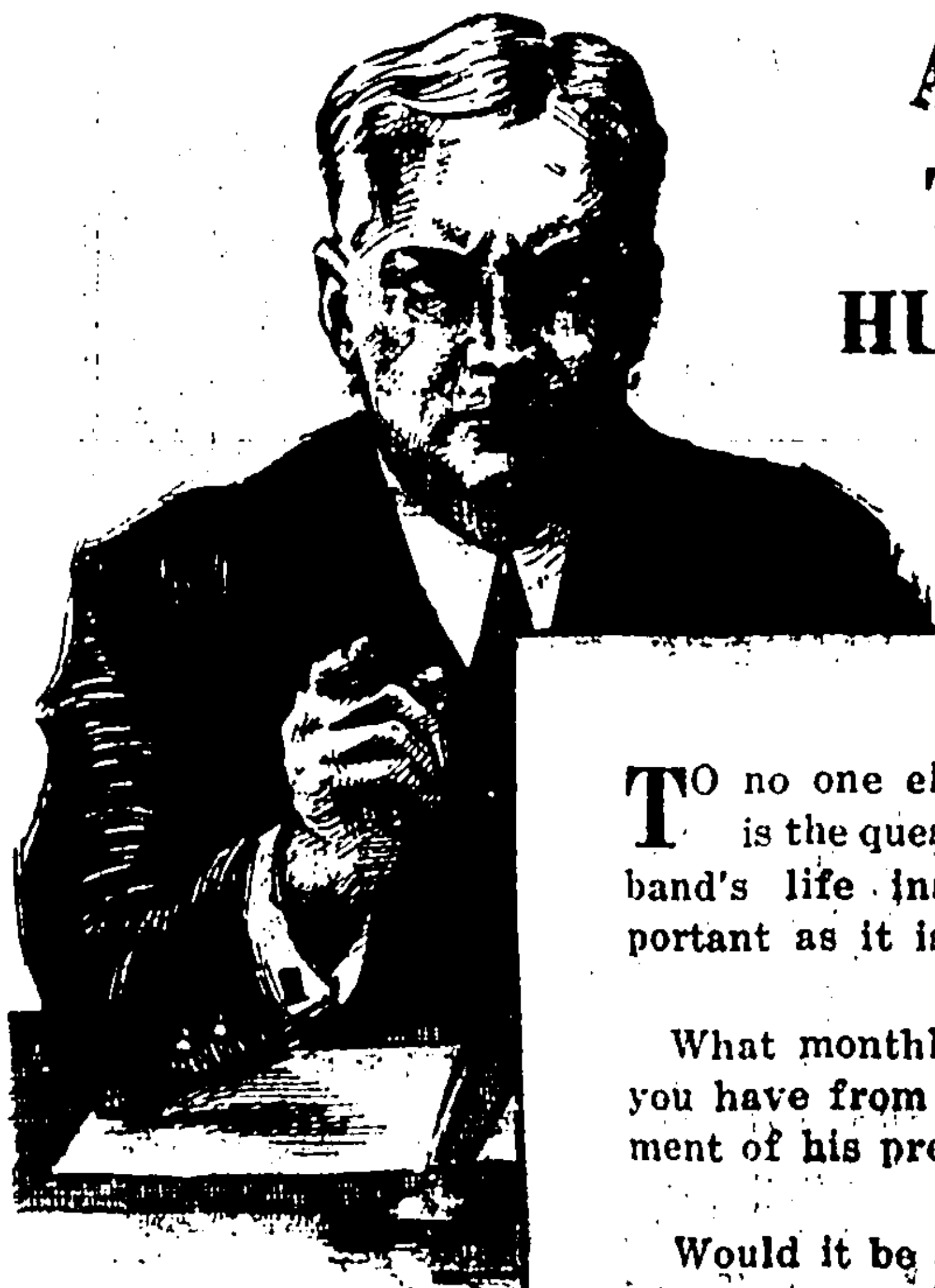
The tailor's suspicions were aroused and he took the number of the man's car enabling the police to stop the car at the frontier and arrest the four German occupants.

TRUE SPY LINES

The affair is developing along true spy lines and newspapers early yesterday announced the extraordinary discovery during a domiciliary search, of a German aeroplane in a garage.

Investigations indicate that the gang was trying to smuggle any sort of Dutch uniform from a tram conductor's to a cavalry officer's.—Reuter.

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8APB10

HOLLAND AND BELGIUM GETTING READY FOR SQUALLS

Amsterdam, To-day.
THE ORDINARY PEOPLE of Holland and Belgium to-day realise that the security and neutrality of their countries hangs in the balance. Both countries continue to take precautionary measures.

In Belgium, 5,000 men of the Reserve Army have been called up and buses and motor coaches have been requisitioned.

Holland has flooded certain areas and declared others to be in a state of siege.

BRITAIN'S ATTITUDE

London, To-day.
Mr. Chamberlain was asked in the House of Commons yesterday if he would say anything about the peace appeal from the rulers of Belgium and Holland.

He replied that the communication is receiving the careful consideration of the Government, but that he was not in a position to make any statement on it yesterday.

In connection with the smuggling of uniforms into Germany, the Dutch police in a number of raids have seized a number of important documents.

In a raid on a garage, they also seized a mysterious aeroplane.—Reuter.

The British Government, observers point out, is of course under an obligation to consult not only the Dominions and France on such a matter but also the Polish Government.

The Polish Premier and the Polish Foreign Minister are coming to London next week as guests of the British Government.—Reuter.

ALL LEAVE CANCELLED IN REICH

Copenhagen, To-day.

According to the Berlin correspondent of the "Politiken," German soldiers of every category and Air Force officers who were granted leave after serving in Poland, have been recalled by telegram.—Reuter.

VAST ATTACK PREDICTED IN TEN DAYS

London, To-day.

PREDICTIONS THAT Herr Hitler will attempt a smashing blow at the Allies in the next ten days come from neutral countries, and appear to be borne out to some extent by unusual liveliness in the air in the fighting zone, and the massing of the German Army.

The Riga correspondent of the "Afton Bladet" of Stockholm, learns from sources which he states are invariably well informed on Russian affairs, that Moscow has been informed that the German intends to make vast attacks on the whole of the Western Front, combined with a combined air attack on Britain on an unprecedented scale.

This attack, it is intimated, will be launched within the next ten days.

The correspondent states that the decision is understood to have been taken long ago, but its execution was postponed.

Moscow and Rome have now been informed, he says, that the start will be made in ten days' time.

Moscow, dubious of the results, is believed to have warned Germany of the danger of failure, but Berlin is unlikely to abandon the plan which is considered to mark the real beginning of the war.

AIR LIVELINESS

In the meantime, the Germans are sending great numbers of planes on reconnaissance over the Allied lines and into the interior of France.

The Allies have replied by despatching several reconnaissance patrols into the interior of Germany.

On land, there has been liveliness, too. Three German raids of some importance were launched during the day, in addition to the usual activity in No-Man's-Land.

In each case, the attackers were repulsed. — Reuter.

AMSTERDAM COMMENT

Amsterdam, To-day.

The newspapers here state that no definite attitude can be taken by Germany in respect of the peace proposals until Hitler has made up his mind.

All the correspondents agree, however, that the first reception has been friendly.

It is remarked in Amsterdam that the Belgo-Dutch initiative was preceded by sharp German press attacks on Holland and Belgian for their attitude to "British Sea dictatorship."

Dutch correspondents in Berlin have reported demands that Holland should flaunt British contraband control and been told that Holland's neutrality was one-sided. — Reuter.

TEST CASE DEMAND

Amsterdam, To-day.

A Berlin correspondent of a Netherlands paper reports that Germany is about to make the neutrals to make a test case of the British blockade. The idea is to have Netherlands steamers defy the British blockade and refuse to stop in order to see what would happen. — Reuter.

PEACE APPEAL MYSTERY

(SPECIAL TO "CHINA MAIL")

Brussels, To-day.

Commenting on the peace mediation offer of the Belgian and Dutch Monarchs, the "Vingtieme Siecle," leading Brussels paper, asserts that the underlying reasons for its issue at this time are somewhat mysterious.

The paper expresses the opinion that mediation may even be due to a request made by Hitler in Brussels and The Hague.

It recalls that on October 8, when the German peace offensive was at its height, Berlin hinted at the role of neutrals in wartime, and referred to the possibility of an offer of the good offices of mediation by them.

The journals adds: Will the nations at war accept this peace offer? The next few hours will be very important and might prove decisive for the peace of Europe, including that of our countries. In any case, everything will be done to save our countries from destruction.—Havas.

AMERICAN TANKERS CHANGE REGISTRY

Washington, To-day.

The Standard Oil Company of New Jersey has stated that at least six of their tankers have been transferred to the Panama flag in the past six weeks and a further nine are changing.—Reuter.

FRENCH PAY TRIBUTE

Paris, To-day.

While the initiative of King Leopold and Queen Wilhelmina is unanimously paid a tribute, the press generally emphasises that Britain and France are more firmly united than ever and will stand by the views expressed by Mr. Chamberlain and M. Daladier and restated by Lord Halifax at Tuesday's broadcast.

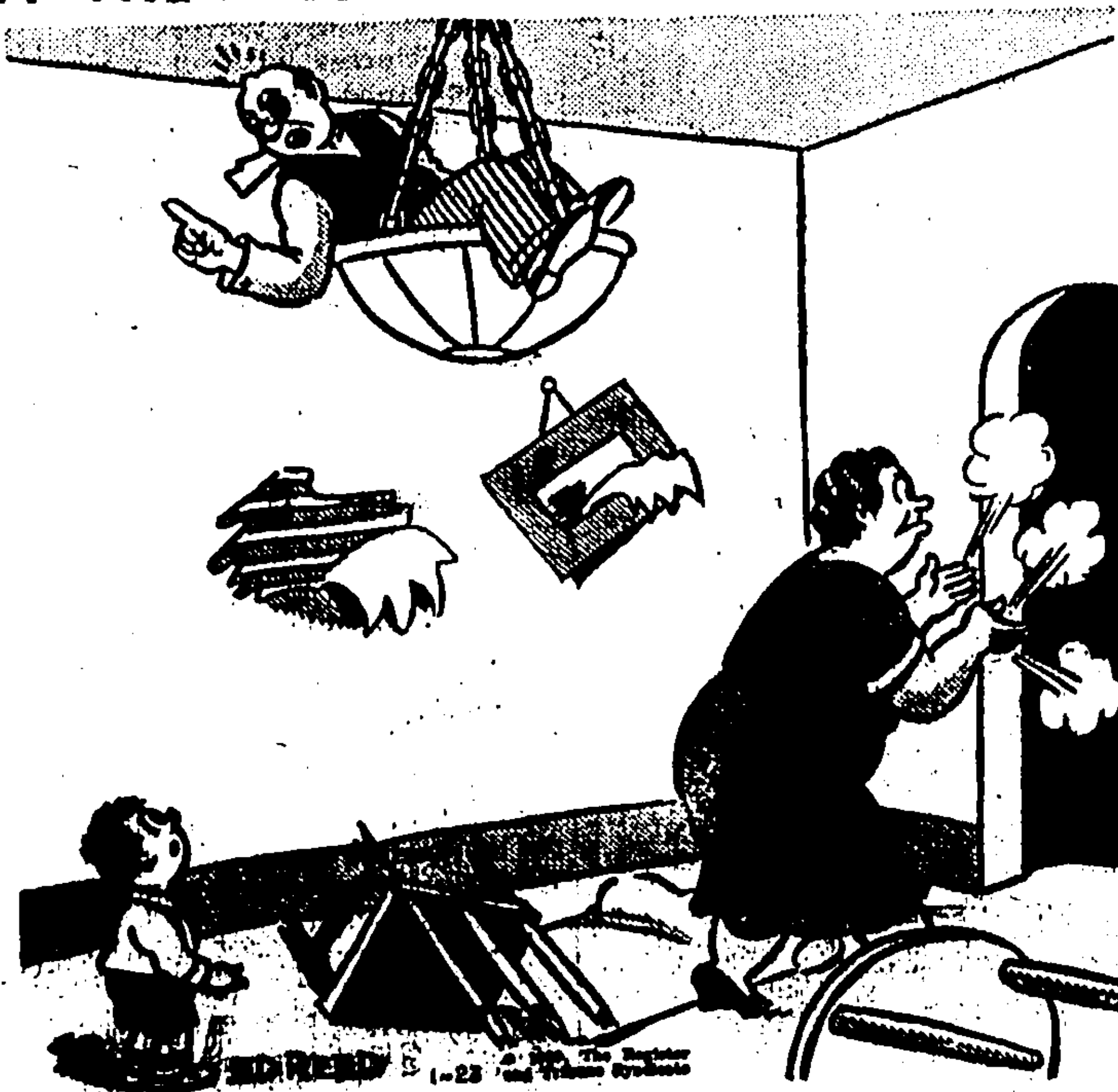
The success of Lord Halifax's speech has made the position clear.

"L'Oeuvre" finds the Halifax broadcast as important as the Belgo-Dutch initiative.

A number of papers declare that German pressure exercised on the sovereigns was inspired by the blockade which was worrying the Reich and making itself felt more daily.—Reuter.

OFF THE RECORD

By Ed Reed



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This lady was greatly worried by eruptions of pimples and blotches. Naturally, she tried every way of getting rid of them, and at last she discovered the remedy which made her complexion perfect again. Here is what she writes:—

"For the past two years my face was covered with hard pimples and red blotches, and I also had eczema on my neck and fore-arms. I tried every lotion, cream and ointment there was to be had, without the slightest effect. I was so worried. Fortunately I decided to give Kruschen a trial, and without any exaggeration, within six weeks my face was without a blemish, and I have not had a sign of eczema since. I take Kruschen regularly every morning, and would not be without it."—(Mrs.) J.A.

Pimples and eczema are frequently due to impurities in the blood—irritant poisons which sluggish body organs are failing to expel from the system. Kruschen Salts keep the body organs functioning normally and healthily, so that all blood impurities are regularly and completely expelled.

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BETTER TYPING



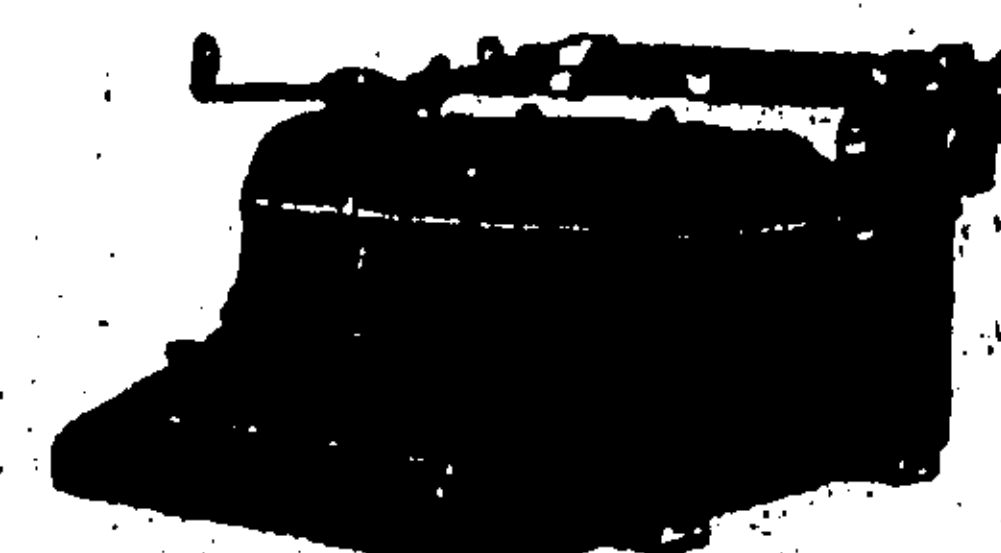
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PRINCESS HOHENLOHE'S WORK IN GERMANY FOR VISCOUNT ROTHERMERE

CARRIED WITH ACCLAMATION

Ankara, To-day.
The National Assembly yesterday ratified unanimously and amid acclamations, the Triple Alliance between Turkey and Britain and France.—Reuter.

AMERICAN ANNOYANCE WITH MOLOTOV

(SPECIAL TO "CHINA MAIL")

Washington, To-day.
The resentment expressed here by political quarters at M. Molotov's speech is shown by the fact that most American leaders refrained from attending the reception given by the Soviet Embassy to commemorate the twenty-second anniversary of the Soviet Revolution.

M. Molotov's reference to the "American bourgeoisie wishing to prolong the European war in order to reap profits from it" is commented on ironically by politicians, who recall that the Soviet for many years openly wished for a world war to pave the way for world revolution.—Havas.

AMERICA'S SEABOARD PATROL

Washington, To-day.
The Navy has ordered two more World War destroyers to join the Atlantic neutrality patrol, raising to over 80, the number of warcraft guarding the East Coast.

Preparations are also proceeding to speed the construction of hangars and other aircraft facilities at nine points on the East Coast and Caribbean, where planes will be based to reinforce the patrol from the air.—Reuter.

London, To-day.
AN ACCOUNT OF A newspaper campaign in favour of revision of the Treaty of Trianon and negotiations with Hitler and the Crown Prince and others, was given in a hearing begun yesterday in a high court action by Princess Stefanie Hohenlohe for damages for breach of contract against Viscount Rothermere, the proprietor of the "Daily Mail" and other papers.

Mr. Gilbert Beyfus, counsel for the Princess, stated that the action was brought primarily to vindicate the Princess's reputation and expose the falsity of certain libels in the French, German and Viennese press.

The Princess first met Viscount Rothermere socially about 13 years ago. One day she suggested that he should start a campaign to inform the British public of Hungary's wrongs.

Lord Rothermere accepted the suggestion and in June, 1927 an article appeared in the "Daily Mail" entitled "Hungary's place in the Sun," which became so famous in Hungary that its anniversary has been celebrated ever since.

"LITTLE FATHER"

Mr. Beyfus declared that Lord Rothermere became known as the Little Father of Hungary and nearly every town in Hungary, including the capital, had an avenue, square or park named after Lord Rothermere.

In 1932, Lord Rothermere proposed that the Princess should become his personal foreign political representative, saying that he had decided to work for the restoration of the Hohenzollern and Habsburg dynasties. He offered her £5,000 and expenses.

Mr. Beyfus added that the Princess accepted the position and thereafter acted as ambassador for Lord Rothermere, who later corresponded with the ex-Kaiser, the ex-Crown Prince, Hitler, the Hungarian regent and the Prime Minister of Hungary.

NEGOTIATIONS IN POTSDAM

The Princess visited the ex-Kaiser and advised Lord Rothermere to have no further dealings with him, but negotiated with the Crown Prince who was then in Potsdam.

When Lord Rothermere went to Germany he promised the Crown Prince that he would do his best to support the restoration

of the Hohenzollerns to the throne of Germany.

At a later period a number of articles appeared in foreign newspapers accusing the Princess of espionage on behalf of Lord Rothermere who advised her to ignore them.

LARGE PAYMENTS

Just before Hitler became Vice-Chancellor she obtained a letter from the ex-Crown Prince exclaiming his views with regard to the political situation.

In June, 1933 the Princess saw Hitler, at Lord Rothermere's suggestion, and the following year she obtained from Hitler an invitation for Lord Rothermere to visit him in Berlin.

During the five and a half years, Lord Rothermere paid the Princess £46,000.

At the end of 1936 she secured for Lord Rothermere an invitation from Hitler to visit Berchtesgaden and she escorted him thither.

At the time of the Coronation, the Princess introduced Lord Rothermere to Capt. Wiedmann, personal adjutant to Hitler.

SUDDENLY DROPPED

In January, 1938, Lord Rothermere sent the Princess to Berlin to see Hitler about a certain Hungarian matter and to discuss with Hitler the question of the return of colonies to Germany. She carried out these instructions.

Some months later, Mr. Beyfus alleged, Lord Rothermere dropped the Princess without a single word whereupon she began legal proceedings.

The Princess gave evidence in support of Mr. Beyfus' statement and the hearing is continuing to-day.—Reuter.

CANADIAN WAR LOAN

Ottawa, To-day.
Canada is planning a national organization to carry out publicity for its public war loan, whose details are, however, withheld.

It is reported that it will carry an interest of 3.5 per cent and is likely to be opened with an issue by the Government allotting \$250-300,000,000.—Reuter.

KING HAakon APPROVES

(SPECIAL TO "CHINA MAIL")

Oslo, To-day.
King Haakon of Norway has wired Queen Wilhelmina and King Leopold: "I express the most vivid hope that your peace appeal to the belligerent powers will lead to friendly negotiations and a just and lasting peace."—Havas.

FRANCE TO LIFT BARRIER

Chungking, To-day.
The Government of French Indo-China, is to lift the restrictions governing the removal of Chinese goods from Haiphong. This action is welcomed in Chinese circles here, as a "further proof of the willingness of the French and French Indo-China Governments to assist China in her war of resistance.—Reuter.

MILITARY BLACKMAIL EXPLAINS

(SPECIAL TO "CHINA MAIL")

Paris, To-day.

French press opinion is unanimous that the Belgo-Dutch mediation appeal will fail.

"Petit Parisien" writes: "Germany has used all means to increase pressure on Belgium and Holland in what amounts only to diplomatic and military blackmail.

"As to Belgium and Holland themselves, it would not be fair to criticise them, as their position is understandable.

"One should even pay a tribute to their peaceful spirit and humane feelings.

NO BENEFIT

"However, a peace on Nazi terms would not benefit the neutral countries which would be reduced to slavery.

"Britain and France are fighting the Nazi Reich for the independence and freedom of the neutral States of Europe." — Reuter.

JOINT REPLY BY BRITAIN AND FRANCE

(SPECIAL TO "CHINA MAIL")

London, To-day.

Consultations are going on with Paris in connection with the Belgo-Dutch mediation offer.

The French Ambassador, M. Charles Corbin, interviewed the Foreign Secretary, Lord Halifax, twice yesterday.

It is understood that the question is more regarding the shape of the answer to be given than the substance, which will repeat Mr. Chamberlain's declarations on the motives leading to the war and the conditions on which the Allies would lay down their arms.—Havas.

AMERICAN DOUBTS

(SPECIAL TO "CHINA MAIL")

New York, To-day.

The press is doubtful of the chances of success of the Belgo-Dutch offer of mediation.

The "New York Herald-Tribune" writes that no peace negotiations are possible unless with a satisfactory German government.

The "New York Times" is admitting that immediate peace is preferable rather than a lengthy war, nevertheless stresses that "no change has occurred warranting the success of the offer of mediation."—Havas.

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FRANK STATEMENT BY MR. CHURCHILL ON LOSS OF "ROYAL OAK:" TOO ASSURED

London, To-day.

THE NAVY'S BITTER lesson from the sinking of the "Royal Oak" in Scapa Flow was admitted by the First Lord of the Admiralty, Mr. Winston Churchill, in a statement in the Commons last night, in which he gave further details of the loss of the battleship.

In the course of another statement on the war at sea, Mr. Churchill said it was now established that the "Royal Oak" was sunk by a German U-boat which penetrated the defences of the landlocked anchorage at Scapa Flow.

Neither the physical obstructions, such as nets or patrolling craft, were in that state of strength and efficiency required to make the anchorage absolutely fool-proof, as it should have been, against the attack of a U-boat on the surface, or half-submerged at high water.

Measures had been taken and were being taken to improve the physical obstructions, and it was the more necessary, while those defences were incomplete, that patrolling craft should have been particularly numerous.

But, went on Mr. Churchill, from a variety of causes connected with the movements of the Fleet, those patrolling craft were reduced below what was required.

He was unable to enter into details for a full explanation would reveal to the enemy matters which would throw light upon the methods of defence.

"I must content myself by saying that the long and famed immunity which Scapa Flow had gained in the last war had led to a too easy valuation of the dangers which were present."

"An undue degree of risk was accepted both at the Admiralty and in the Fleet."

NONE BELIEVED

"No more striking measure of the strong sense of security against U-Boats which covered Scapa Flow can be found than in the fact that after one torpedo had struck the "Royal Oak," none of the vigilant, experienced officers aboard her conceived that it could be a torpedo.

"Danger from the air was the first to be apprehended and large numbers of the crew took their air raid stations under armour, and were thereby doomed, while, at the same time, the Captain and Admiral were examining the alternative possibilities of an internal explosion.

"It was in these conditions that a second volley of torpedoes was discharged."

The Admiralty, upon whom the broad responsibility rests are resolved to learn this bitter lesson, namely, that in this new war, with its many novel complications, nothing must be taken for granted and that every joint in our harness must be tested and strengthened so far as our resources and ingenuity allow.

MORE ASSURANCE

"What I told the House under much reserve six weeks ago, I can now repeat with much more assurance, namely that we are gaining a definite mastery over U-boat attack."

In the second four weeks of the war British tonnage lost by enemy action was 72,000 tons, less than half the amount lost during the first weeks, and, against that loss, we may set 52,000 tons captured from the enemy, 27,000 tons purchased from foreigners, and 57,000 tons of newly built ships, leaving, in these four weeks, a net gain of 64,000 tons.

"During the first eight weeks of war our net loss in tonnage has been less than one-thirtieth of 1 per cent."

ARK ROYAL'S ANSWER

"It is interesting to note that one of the most valuable of the recent prizes was captured from the enemy

by the Ark Royal which the German Wireless has sunk so many times.

"When I recall the absurd claims that they have shouted to the world, I cannot resist saying that we shall be quite content to engage the entire German Navy using only vessels which they have declared they have destroyed."

"More than 10 million tons of cargo has been brought into the country in the first eight weeks of war and less than a quarter of a million tons has been lost. But over 400,000 tons of cargo consigned to Germany has been captured."

FIGURES DIFFICULT

"Turning to the offensive against U-boats Mr. Churchill said that it was very difficult to give assured figures because many marauders sunk in deep water left no trace behind."

But it would be a fairly sound and conservative estimate to say that the losses of the U-boats had been between two to four in every week.

"We must assume that perhaps two new U-boats have been added to the hostile strength every week and in 10 weeks of war this would amount to 20."

"At any rate our expectation is that we must face 100 U-boats available in January whatever losses have occurred in the interval."

BIG STRUGGLE

"It will be seen therefore that a big and unrelenting struggle lies before us."

"For this our preparations are moving forward on the largest scale and three times as many hunting craft are now at work as at the outbreak of war and very large reinforcements of vessels especially adapted for this work will flow in increasingly from the Spring of 1940 and onwards."

"Therefore it would seem that judged upon a material basis alone we may face the future with confidence."

"We are exposed to a form of attack justly considered abominable but we are making successful headway against it."

"I must warn the House again that continual losses must be expected. No immunity can be guaranteed at any time."

OPENING PHASE

During this opening phase of the war, Royal Navy have suffered a greater loss of life than all the other forces, French and British, on sea, land and air combined.

Every loss inflicted on us by the enemy has been at once announced.

In addition, since the outbreaking of war, one of our submarines, H.M.S. Oxley, has been destroyed by an accidental explosion in circumstances which made its publication inadvisable at the time.

The war at sea, in fact, has been the only war which has been pro-

GENERAL STRATEGY OF THE WAR

London, To-day.

The general strategic position in the war was outlined by Mr. Hore-Belisha yesterday at a private joint meeting of the Conservative Private Members' Committee and the Army Committee.

The War Minister emphasised that in addition to the considerable forces already in France, there existed an enormous reserve at Home, a largely augmented reserve in the Middle East and the troops in India.

He also referred to the garrisoning of overseas stations by an increasing proportion of local troops.

He added: Thirty-two divisions is not the limit of our land forces and we are looking forward to the arrival of the Dominions contingents.

—Reuter.

HEAVY BAIL

Bail in sums totalling \$11,750 was granted by Mr. Q. A. A. Macfadyen this morning to six employees of the Kowloon Motor Bus Company and another man and a woman when they appeared, on remand, on 18 charges in connection with forged bus tickets.

Mr. C. A. S. Russ and Mr. S. Ng Quinn will appear for accused.

Mr. Poy's car, No. 1923, stolen at 4 a.m. on Thursday, was recovered at 10.15 p.m. yesterday in Pokfulam Road.

ceeding on a full scale, but the House would not suppose that losses were the only events which were taking place at sea.

SURFACE RAIDERS

In addition to U-boat attacks we have to face the menace of surface raiders.

It is certain that one, and possibly two, so-called pocket-battleships have been out on the Atlantic trade routes during the last six weeks, but what is remarkable is that although these powerful vessels have been lying in wait for the stream of convoys crossing the Atlantic, they have not been able or have not dared, so far, to make any capture worth considering.

An aggregate of 10,000 tons had been sunk so far compared with 212,000 tons by U-boats.

NOTE OF WARNING

Mr. Churchill struck a note of warning because the element of risk was never absent.

Hitherto, however, not only had the U-boat campaign been controlled but also attack by surface raider both by warships or armed merchantmen have not developed in any serious way.

Mr. Churchill spoke of the remarkable contribution of the French Navy and said it seemed a wonderful thing when France was making so great an effort upon land that she could at the same time offer to the Allied cause so powerful a reinforcement on the sea.

Concluding Mr. Churchill said that after the ninth week of the war that as far as the sea was concerned they might cherish good hopes that all would be well. — Reuter.

BRITAIN AND BULGARIA

London, To-day.
It is officially announced that Notes have been exchanged between Lord Halifax and the Bulgarian Minister in London embodying an agreement to facilitate trade between Britain and Bulgaria.—Reuter.

CHINA NOTE SEIZURE ORDER REFUSED

SHANGHAI, TO-DAY.

THE COMMISSIONER OF THE CHINESE MARITIME CUSTOMS YESTERDAY REFUSED TO ENDORSE THE ORDER OF LI CHIEN-NAN, SUPERINTENDENT OF CUSTOMS, FOR THE CONFISCATION OF SOME \$10,000,000 IN CHINESE NATIONAL CURRENCY WHICH ARRIVED ON BOARD THE S.S. PRESIDENT PIERCE FROM HONG KONG.

The Commissioner also stated that the circulars issued to all foreign consuls and businessmen in the city warning them that the Customs Department has decided to prohibit the import and export of Chinese national currency were issued without his authority.

Yesterday, Li Chien-nan attempted to obtain the Commissioner's approval for the confiscation of notes but was unsuccessful. The notes have been safely delivered.—Our Own Correspondent.

SECRETS OF BRITISH ARMY

LONDON, TO-DAY.

DOMINION MINISTERS AND SIR ZAFRULLAH KHAN, REPRESENTING THE GOVERNMENT OF INDIA, SAW YESTERDAY, SOME OF THE SECRETS OF BRITAIN'S ULTRA-MODERN ARMY.

They visited an Army training centre and besides being shown some of the marvels of the latest mechanised units they were given a demonstration of the immense fire power of the infantry.

They watched a mock battle in which a killed regiment advanced with Bren guns and smothered with a hail of fire targets 500 yards distant.

In the middle of the demonstration the gas alarm was given and the infantry donned masks and maintained the attack.—Reuter.

PRIME MINISTER AT GUILDHALL TO-DAY

London, To-day.

The Prime Minister, who will be speaking at the Lord Mayor's luncheon at the Guildhall to-day will not make his usual Thursday statement on the war in the Commons.—British Wireless.

Mr. W. D. Gardiner, driving in King's Road yesterday, accidentally knocked down Poon King-po, 71, outside the east gate of Talkoo Dockyard. The man was admitted to the Queen Mary Hospital.

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MIRROR OF WORLD OPINION

WHAT IS WANTED

What is wanted is friendship, not payment. What form the British response should take might well be worked out by consultation. In their present mood Indians would not strain at the method so long as they could accept the aim and recognise the honest intention to achieve it. First and foremost, a British gesture is required, a declaration that will focus the goodwill that has surged up in India since this country has been engaged in war. In fact, Congress is looking to the British Government to provide what so many people in this country are demanding — a sign that England is taking to arms not merely in defence of interests but in the hope of creating a better world order out of victory. We may yet have cause to be grateful to Pandit Nehru for pressing us to face the larger issue.

The doubt that prompts the pressure cannot be really justified, though the Government has by its past actions helped to rouse it. This country may have been forced to go to war in order to ensure its own survival, but once engaged it is determined to use the triumph of arms for which it hopes in organising the triumph of reason among the nations. The British Empire has already gone far in the progress from Imperialism by way of trusteeship to free association. The Dominions have proved in these days that the road was the right one. It is exactly one hundred years since Lord Durham in his report on Canada advocated full self-government as a cure for rebellion. Only ten years ago Sir Austen Chamberlain told the then Premier of Egypt that Britain "could not recede" from the position "in which God had placed her," yet Egypt is to-day both free and friendly. What is now needed is a frank assurance to India that the free and equal association of nations is the object of British policy and the very ideal that England is fighting to establish. It is no more than the truth, but truth must out. The Government must act now with decision, with political wisdom, and with the justice that we proclaim to be our guiding principle; this is no time for pettifogging caution. The words of Queen Victoria to another generation of Indians should be remembered to-day — "In their prosperity will be our strength, in their contentment our security, and in their gratitude our best reward." — "Manchester Guardian."

A BLUNDER

"Ever since the end of 1933, when the United States entered into diplomatic relations with the Government of Soviet Russia, Kremlin spokesmen have worked overtime to maintain friendly relations with Washington. During the past week there has been a sharp change in the tone and attitude of the Soviet authorities.

"In place of gushing friendliness there is now a marked hostility. It all started with the German seizure on the Atlantic of the American merchantman 'City Of Flint.'

"The fact of the matter is that both the German and the Soviet Governments blundered badly—the former by seizing an American ship, the latter by allowing it to be taken by a German prize crew into Murmansk. Each has been trying to 'pass the buck' to the other. It is also not unlikely that both Hitler and Stalin

are trying to exploit the incident with a view of worsening each other's relations with the United States, for this Hitler-Stalin partnership is characterised by nothing so much as the mutual distrust and suspicion which each entertains for the other.

"Willy-nilly, having made a political bedfellowship with Hitler, Stalin finds himself dragging along at Hitler's coat tails. It must have been highly embarrassing for the 'neutral' Stalin to have a German prize crew bring an American ship into a Soviet port. He could hardly have refused the vessel admittance. That would have angered Hitler and weakened a partnership which Stalin is fearful of breaking—at present." — "China Weekly Review," Nov. 4.

* * *

COMPROMISE

The long-pending Kulangsu issue was settled amicably by exchange of ratifications of the agreement concluded between the Japanese and the Kulangsu International Settlement authorities. The event signifies a good deal because it indicates a compromise on the part of Britain in particular who had assumed the stiffest attitude of all the interested Powers. One potent cause of the present solution of this issue, however, is the recent outbreak of the European war, which has had to engross the attention of Britain in that direction.

A glance at the contents of the agreement shows that the six items which constitute the agreement point to the approval on the part of Kulangsu Municipal Council of almost all the original claims raised by the Japanese. This would make one easily perceive that if the Municipal Council authorities had not used too much bargaining tactics from the outset by understanding Japan's reasonable claims, the issue would have been readily settled much earlier. True, among the items of the agreement there are some whose actual enforcement has been reserved for the future for financial reasons. But those items even are confidently expected to be actually enforced sooner or later without any difficulty if the Council authorities are so disposed.

THE VILLAIN

It is a common thing for men who believe in peace to emphasize the stupidity of war. We tend sometimes to think that peace is so easy, war so brutal and insensate, that we should never have an armed conflict were it not for the fact that the statesmen and rulers of the world are so unbelievably wicked and foolish. Peace workers are at their worst when they pursue this argument. Their search for the villain in the drama has never been markedly successful. Some blame the diplomats, some the munition makers, some the international bankers and financiers. It is only necessary to know a few diplomats, a few munition makers, or a few international bankers to realize how wild and how unjust these accusations are.—Dr. Frank Aydettote.

The solution of the Kulangsu issue in itself makes an event to be heartily congratulated upon for the sake of maintenance of peace and order in the same International Settlement. But at the same time it signifies a great deal as a "test case" leading to future solution of similar issues pending between this nation and the Powers in China. For instance, the present solution of the Kulangsu issue furnishes a good example to be followed at least in the case of Shanghai and Tientsin.—

"Tokyo Asahi Shimbun."

* * *

FRENCH DEMAND ON GERMANY

No one has ever asked Germany to renounce defence of its vital interests. What is demanded of her is that she gives up her methods of expansion through violence and respect the rights and genuine vital interests of the nations so that a sound political equilibrium and reign of international law can subsist on the Continent.—"Le Temps," Paris.

BRITISH VIEWS MADE CLEAR

London, To-day.

THE OFFER BY QUEEN Wilhelmina and King Leopold of their services as intermediaries for peace took London by surprise.

Nevertheless, the humane motives which prompted their action in addressing this appeal for peace to King George, the French President and the Reich Chancellor are fully appreciated, and coming from such a quarter the proposals are assured of careful consideration.

The appeal reached Buckingham Palace during a dinner party given by the King and Queen to delegates from the Dominions and India now in London and their wives. The Prime Minister and Mrs. Chamberlain, the Dominions Secretary and Mrs. Eden and the Duke and Duchess of Devonshire were also present, and it is understood, the appeal from the Hague was discussed between the King and his statesmen.

It was under the examination of Ministers yesterday.

Meanwhile, press comment offers a clear indication of how the public regards this invitation. "The Times" says the fact that the Netherlands and Belgian monarchs, whose joint offer of their services as intermediaries on the very eve of the invasion of Poland, was rebuffed by the arrogance of Hitler, can even now nourish some degree of optimism, will not be regarded lightly.

HONOURABLE PEACE

The "Daily Telegraph" says "Lasting peace must be an honourable peace and at the present there is no sort of evidence that the conditions of an honourable peace are obtainable. It is not as if the present conflict were the result of a misunderstanding which could be cleared up in conference. It is the result of irreconcilable antagonism of faith and purpose."

"As Lord Halifax well said our resolve is not only to protect the future from a repetition of the injuries which German aggression has inflicted on Europe in these last few years but also, as far as we can, to repair the damage successively wrought by Germany upon her weaker neighbours."

"When the wrongdoer shows a readiness to abandon his aggressions and renounce the ill-gotten rewards of them, it will be time to talk of discussing with him the foundation of a lasting peace."

NO FALTERING

"If this country were to falter now, it is not its own freedom and security that would be put in jeopardy. It is the freedom and security of all those peoples in the world who, unable to make head against aggression, look to this country to stand in the path of the aggressor and to say that unbridled force shall not dominate the world."

The British Empire never stood for a higher and nobler cause and to desert that cause would rob the Empire of its proudest and most unassailable justification for persistence."

RESTITUTION IN DEED

The Daily Herald says:—"Britain and France are no less sincere in their desire for peace, but it must be a peace on terms which are consistent with honour and will assure an end to aggression. Those terms the Prime Minister has already stated, must include actual restitution by Germany in deed and not word for the damage done to Poland and Czechoslovakia. If Germany would first withdraw her troops from Poland and Czecho-Slovakia, Britain and France would be prepared to discuss terms of a peace settlement. There would be no harm in using the good offices of Belgium and Holland in order to make that clear to Hitler once again."

The "Daily Mail" The "Democratic terms are well known. They are that Germany should relinquish the gains of aggression and give firm guarantees of her intention to fulfil

future undertakings."

The "News-Chronicle: "So long as the aggressor is in possession of his prey, so long as he repudiates the right of anyone but himself to be concerned with the freedom of his smaller neighbours, so long as he denies the fundamental rights of individuals and of States, the only answer we can give to an anxious and well intentioned suggestion from Holland is to refer to our conditions and to stand fast.—British Wireless.

NO OTHER REPLY EXPECTED

London, To-day.

A German reply is considered unlikely in Berlin, in view of British and French press reactions to the peace appeal.

Hitler left for Berchtesgaden on Tuesday night and spent the night there before going to Munich yesterday afternoon.—Reuter.

MAKES SPEECH AFTER CONFERENCE

Berlin, To-day.

After receiving the telegram containing the Belgo-Dutch mediation offer, Hitler recalled von Ribbentrop, the Foreign Minister from the Soviet Embassy in Berlin, where Ribbentrop was attending a reception.

Goering also attended the reception which celebrated the 22nd. anniversary of the bolshevik revolution.

Questioned regarding the delivery of American aeroplanes to the Allies, Goering told correspondents: "If our production of planes is not quicker than America's we must be very feeble."

Ribbentrop and Hitler had a lengthy conference on the peace proposals before the Fuehrer went to Munich for the Nazi putsch celebrations.—Reuter.

LITTLE FAITH IN HOLLAND

(SPECIAL TO "CHINA MAIL")

Amsterdam, To-day.

Revealing the absence of faith in successful outcome of the peace initiative, the Government has ordered a large number of additional districts to be prepared for flooding as a precaution against any eventuality.

On receipt of these instructions, the authorities in Utrecht Province took measures to flood at a minute's notice, the main highways leading from east to south Holland.

The famous natural waterline, extending roughly from Amsterdam to Utrecht, filled by the waters of the Zuider Zee will once more serve as Holland's historical defence. Well-informed quarters state that the tone of the Nazi Press in the past few days justifies every apprehension.

The German papers are now accusing Belgium and Holland of being Britain's vassals and threatens them with the Reich's "protective measures." — Havas.



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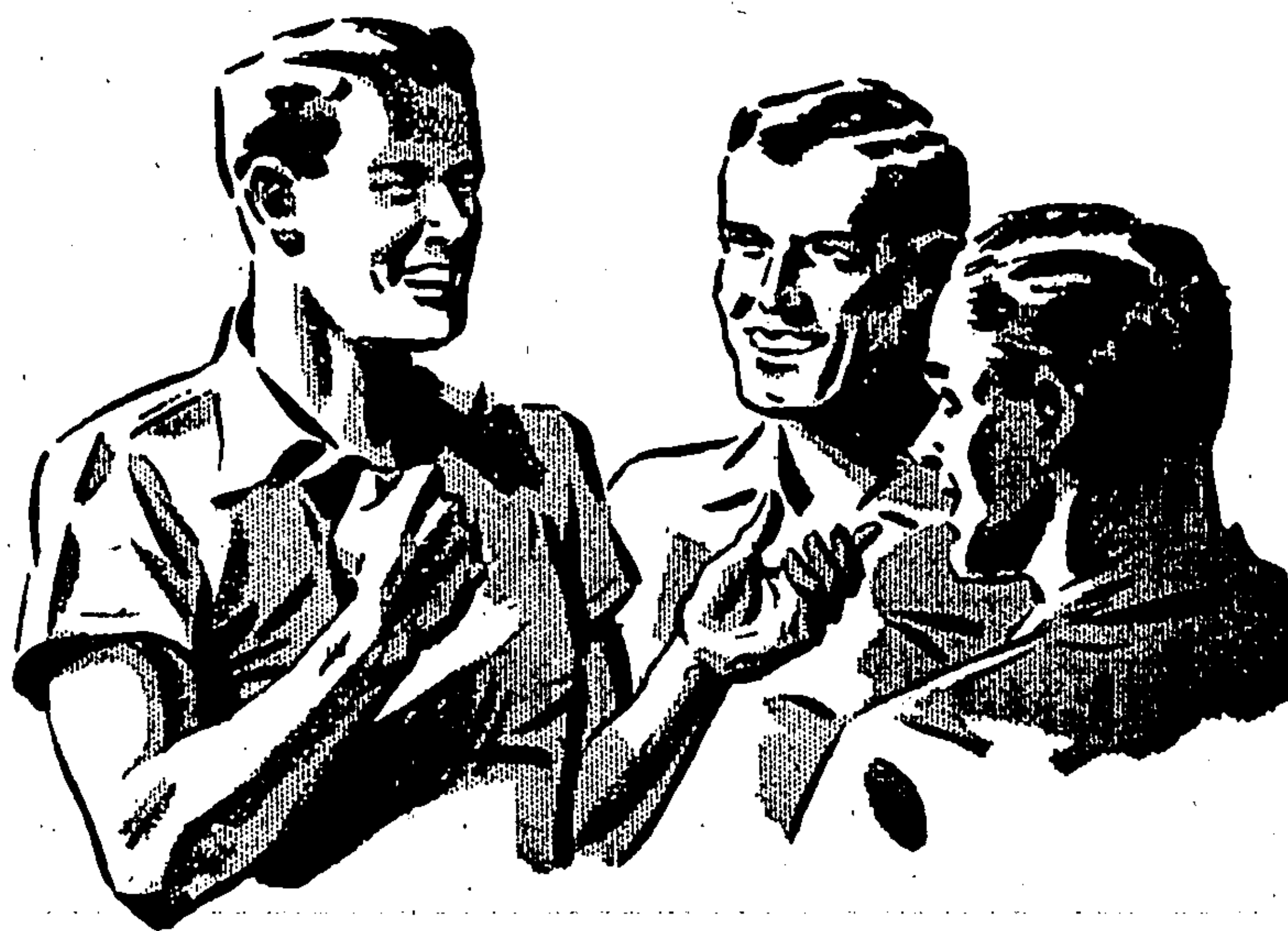
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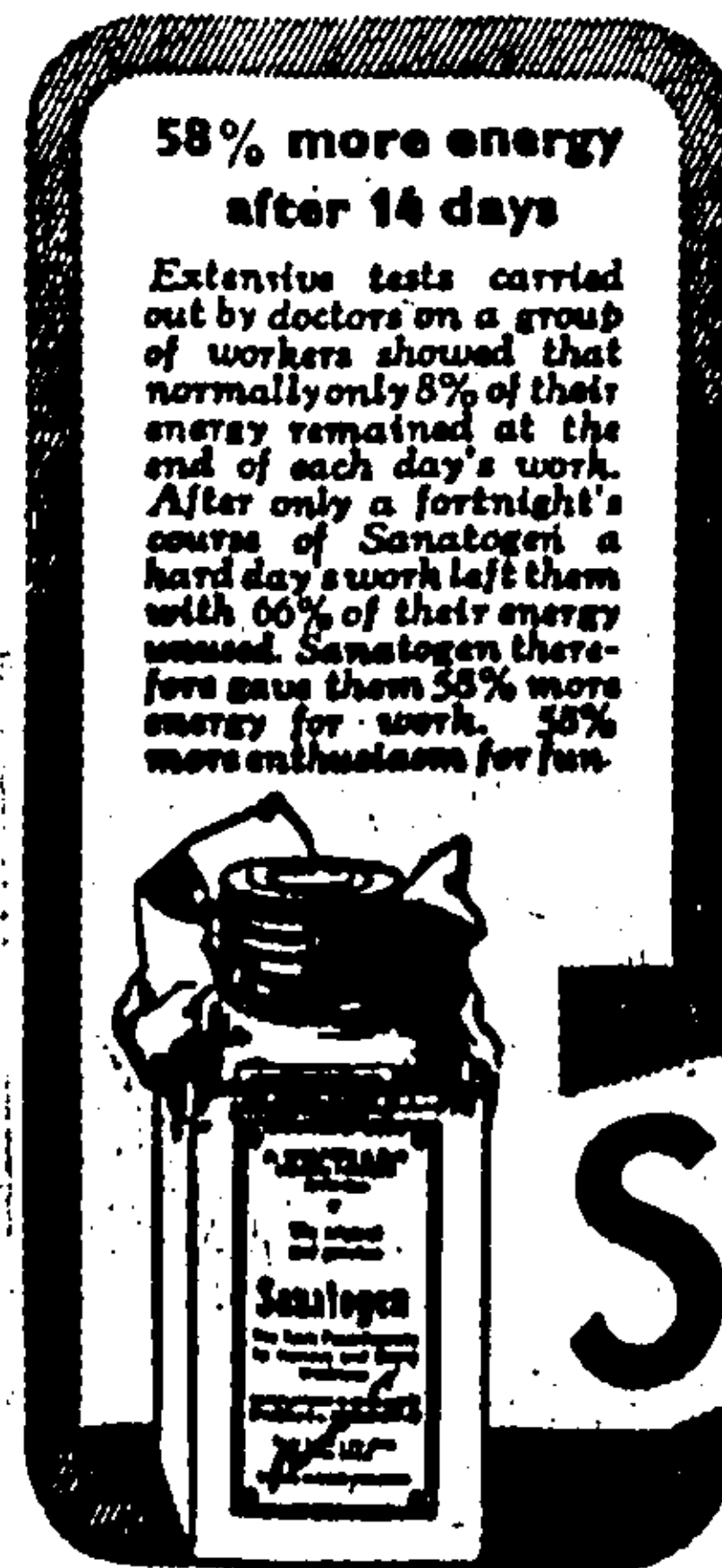


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INEXPENSIVE SATISFYING

(Continued from Page 1)

traordinary for 1940-41, namely, item 11, 14, 15, 19, 21, 22 and 23, is over three million three hundred thousand dollars, whereas the amounts now being voted for commencing those works total no more than two hundred and fifteen thousand dollars. The big difference between the above amounts will have to be made up by the tax payer in future Budgets unless we are to leave those Works in a state of suspended animation for the wholly unknown and uncertain duration of the war.

(3) In his speech in this Council on the Budget, on the 12th October, the Honourable the Financial Secretary said:—

"In preparing the final draft a number of items of new expenditure which it had originally been desired to include were deleted in order to avoid budgeting for any substantial deficit in the uncertain circumstances which lie before us."

AN ADMISSION

That statement of the Financial Secretary I regard as an important admission that certain desirable items of expenditure were excluded from the Budget because of the "uncertain circumstances which lie before us," and nobody who is acquainted with the circumstances of Hong Kong will dispute that there are many other public works which we would like to have carried out if finances permitted. This seems to me a very strong argument not only against our sending home as a War Gift a sum of more than three million dollars but also a very strong argument against the imposition of a tax like income tax, which will seriously upset Chinese capitalists and industrialists in this Colony.

VISIT TO KWONG WAH

A few days ago I visited the Kwong Wah Hospital and found that it was badly overcrowded, with, in some cases, two patients occupying the same bed. Also I found over 200 patients quartered in four matsheds in the grounds, who are exposed to serious danger in case of fire.

In these circumstances it is obvious that more hospital accommodation for several hundred patients ought to be built as soon as possible, involving a probable expenditure of about two million dollars.

I am confident that Your Excellency, who has Public Health matters in this Colony so much at heart, will agree that this is a responsibility which rests upon the Government and that these new hospital buildings ought to be erected as soon as possible.

I now pass on to the main theme of my speech, which is that, for the purpose of making a gift to the Imperial Government, other taxes which would not involve the risk of injuring the trade and prosperity of this Colony ought to be substituted for income tax.

BUSINESS ATTITUDE

In the opinion of responsible business men of this Colony the imposition of income tax would be a disastrous form of taxation to adopt, for it is the unanimous opinion of the Committee of the Hong Kong General Chamber of Commerce, and of the Committee and Members of the Chinese Chamber of Commerce, that they are not in favour of the institution of income tax in this Colony.

My Unofficial colleagues on this Council are unanimously opposite to income tax.

I confess that I find it very difficult to understand what justification the Government has for proceeding with the consideration of an income tax bill in view of the fact that those British and Chinese Experts have unanimously expressed themselves as being

opposed to Income Tax.

CHINESE MENTALITY

Anybody who understands the mentality of the Chinese must realise that such a measure as income tax would be likely to cause the flight of capital from this Colony and to prevent new remittances from being made to Hong Kong and also that it would probably deter new factories and enterprises from starting here.

In connection with this latter point I may mention that I have been informed recently that certain Chinese, who had intended to start steelworks in this Colony, have, since income tax was mooted, abandoned the idea.

Other objections to income tax are that it would involve the trouble and expense of having numerous Chinese account books translated into English, and that its collection would involve the employment, at considerable public cost, of a large staff of new Government officials, and that the Chinese have strong objections to their private, family, and business affairs being pried into.

COST OF ADMINISTRATION

In the Taxation Committee's Report mention is made of the probable cost to Government of administration of income tax, but no consideration seems to have been given to the additional cost of book-keeping, records, legal advice, chartered accountant's fees, etc., that will have to be borne by any business in order to comply with the requirements of the Tax.

We have been told that income tax is enforced in Ceylon, but, with all due deference, that fact is wholly irrelevant, as conditions there are so entirely different from those existing in this Colony.

I fear that Your Excellency, in your desire for this Colony to make a contribution towards the War Gift to the Imperial Government, has not quite appreciated those serious objections to income tax which I have indicated and which will no doubt be stressed by other Unofficial Members. It is hoped, however, that Your Excellency who, in the course of your two years' administration of this Colony, has earned the thoroughly well-deserved reputation of being able to consider every side of a question, will, with the same impartiality, consider the arguments which are now being urged against the imposition of income tax, together with the suggestion that alternative taxes be imposed.

COMMITTEE'S TASK

Your Excellency has recently appointed a Committee to go into details of the Income Tax Bill proposed by Government, and I understand that, in that letter of appointment, it was stated that Government was "willing to give full consideration to alternative methods of raising revenue." I have been informed, however, by the Government, that that remark does not mean that the members of that particular Committee are to be at liberty to suggest any alternative methods of taxation. Accordingly I venture to suggest that Your Excellency should now appoint a Committee for the purpose of considering alternative methods to income tax for raising revenue for the War Gift to the Imperial Government. On that Committee I should be glad, if considered eligible, to serve.

ALTERNATIVES

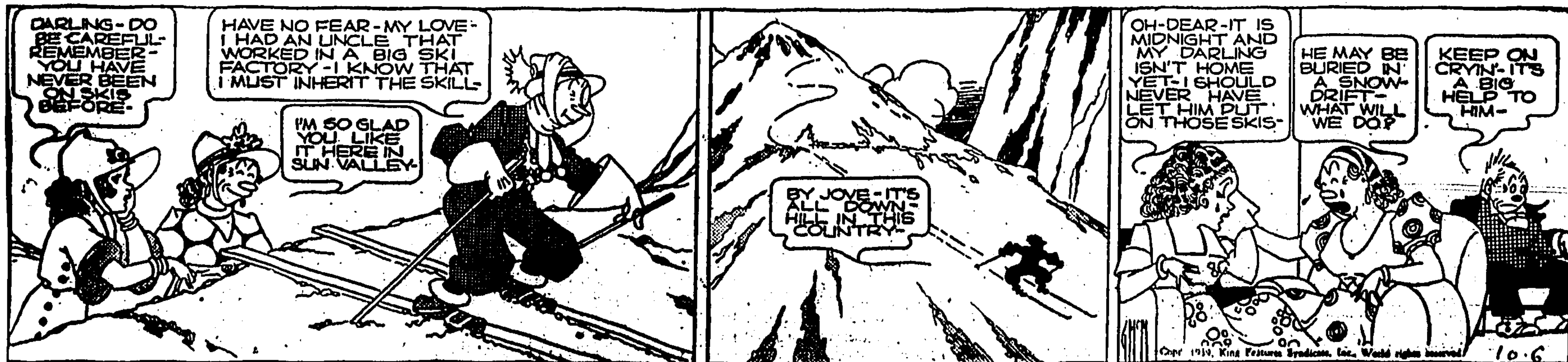
That Committee would no doubt be able to recommend many suitable alternatives to income tax. In the meanwhile I suggest some possible alternative methods of taxation, which have the merit of being easily collected, at small expense, and also of being widely spread, such as:—

A percentage on every electric light and power bill.

(Continued on Page 11)

Bringing Up Father

By George McManus



CHINESE BUSINESS MEN'S SECRETS

(Continued from Page 10)

A percentage on every gas bill.
A percentage on every telephone bill.
A raising of the annual licence fee charged for wireless sets.
A tax on cinema and theatre tickets.
The institution of a special War surtax on the assessed rateable value of property.
The collection of a percentage on dividends from investments in Public Limited Companies in Hong Kong.

NEW COMMITTEE PROPOSED

On behalf of all the Unofficial Members of this Council, I desire to state that Income Tax is, in our opinion, detrimental to the future of this Colony, and to request Your Excellency to appoint a Committee to consider and report on alternatives to Income Tax, for the special purpose of raising revenue for the War Gift to the Imperial Government.

It is my earnest hope that a just and wise solution of this taxation problem may be found and that what ought to be a free-will offering from this Colony will go Home with the cordial and united assent of every Member of this Council.

THE CHINESE VIEWPOINT

The Hon. Mr. T. N. Chau said:—As the draft estimates of expenditure for 1940/41 have been carefully considered by the Select Committee, I personally have no observations to make on the ordinary budget.

As regards the war budget, it is first of all my duty to the Chinese community to dispel any impression which may have got abroad that the motive behind any opposition that has been publicly or privately expressed to the institution of a tax on income reflects any reluctance to raise a special capital contribution to the War Funds of the Imperial Government. The suggestion that the comments or even criticism, however strong, might be construed as revealing any general attitude of antagonism by the Chinese, fortunately comes from a source which we have all learnt to regard as committed, as a matter of policy, to systematic distortion.

"UNEQUIVOCAL"

As representing the Chinese community, and by that I mean not only those whose loyalty arises from their British birth but all who have enjoyed for either longer or shorter periods the privileges of citizenship in this Colony, I have to reiterate in the most unequivocal terms that such opposition, as has already been voiced against the introduction of income tax, is associated with any unwillingness to share in full measure whatever sacrifices which are being claimed from all citizens of the British Empire. I go further and say that far from the adoption of any hesitant attitude towards the raising of a special war contribution by this Colony, it is the general desire of the Chinese community to see that in due course such a contribution be made and in a manner which will be worthy of and do credit to the loyalty of all sections of the community of this Colony.

CHINESE ATTITUDE

The Chinese community is far from being insensible of the urgent and special financial needs of the Colony, and they realise that these call for consideration of new methods of raising revenue.

The opposition to the introduction of Income Tax which it is my duty to emphasise, is based on the firm conviction that its practical implication is so fraught with difficulties, that it will not only fail in its object but may bring in its train repercussions and complications in spheres which might not normally be associated with the collection of revenue.

Were the difficulties with which we are faced only of a practical nature I would consider any form of opposition which did not attempt to offer any solution as being inadequate, but as I am convinced that this revolutionary method of raising revenue in this Colony is going to place us in a position where not merely the prosperity but the whole financial structure may be imperilled, I must deprecate even prolonged considerations directed towards solving the various practical difficulties, many of which have been already voiced by public bodies and in the Press.

"PSYCHOLOGICAL"

I feel that in considering the question of Income Tax in this Colony, where the Chinese business population predominates, we should exercise a sense, not merely of scientific but more particularly of what I might describe as "psychological" economics. We are faced by the undeniable fact that the introduction of Income Tax in a whole-

ly or predominantly Chinese community has always proved a failure and as, obviously, there is a reason for this which might be easily ascertained or, on the other hand, evade the most vigilant inquiry, it is my view that without an answer to this question, an answer which would enable us to distinguish conditions in this Colony from countries where the experiment has failed, we are not justified in proceeding with the matter.

It is known with what little success the attempt to introduce Income Tax in Malaya has met, but what is still more important is the evidence from China itself where the Income Tax Laws, which had been most carefully worked out, have proved to be an absolute failure almost from the time of their institution.

I do not think it necessary for me to put forward any theories for these failures, but I do repeat that a very clear explanation should be the starting point and not an incidental matter for our own deliberations.

NOTE OF CAUTION

The Taxation Committee appointed by Your Excellency in October, 1938, had already, as I will admit, a background of very abnormal conditions in this Colony, arising out of the Sino-Japanese hostilities which had then been in progress for over a year.

That part of their Report which deals with Income Tax cannot, therefore, be said to have ignored entirely the unusual commercial and financial situation which then existed and might continue for an indefinite period.

It is, however, worthy of note that in furnishing replies to a number of practical difficulties in the institution of Income Tax relating to questions which the Committee itself had raised, a very strong note of caution was sounded, and I desire to refer particularly to certain preliminary and conditional recommendations.

These include the absolute necessity for a detailed investigation of the whole field with the assistance of an "expert", and to this I would personally add the maintenance of numerous experts, far beyond the preliminary or introductory stages. And further, the Committee recommended that the imposition of this form of Tax should be preceded by the formation of a large and substantial body of favourable opinion in this Colony.

CHINESE AND TAX

The experts whose reports I should like to hear before this matter proceeds any further, are not those who can assure us how successfully Income Tax works in other communities, but why it has failed amongst Chinese communities. As for those who would be responsible for administration of Income Tax they would all have to be persons with expert training and much experience.

The hope of obtaining such advice and permanent assistance does not, under existing conditions, appear at all bright. The alternative of procuring officials who have to gain their experience at the expense of the smooth working of the system, which should be guaranteed from its initiation, is a sure way of maintaining its unpopularity.

I am convinced that the majority of the Chinese community believe that it will never be possible to approach that stage at which the incidence of the Tax falls fairly and equitably amongst those who should contribute their more or less towards it. In the Chinese business community the conception of profits on investment differs fundamentally from that which is essential for the assessment of the Tax. I am aware that, there is an increasing proportion of Chinese book-keeping which approaches European methods, but the bulk of Chinese business, whether connected with production or industry or with that preponderance which may be described as general trading, adheres to the systems which, although taking care of the specific profits on output or sales, do not take cognizance of general profits on enterprise.

ULTIMATE DEFEAT

In unincorporated partnership is issued a combined Balance Sheet and Income Tax and Expenditure Account in which what is considered as the capital may be increased or decreased but in which the "profits for distribution" as such are not shown.

To those who claim that the information required for assessments may nevertheless be easily extracted, and to those who maintain that a partial transition from the present methods has been envisaged, I would make the same reply, namely, that all who are qualified to speak in such matters deny that such transformation appears feasible, except perhaps at the expense of much confusion and ultimate defeat.

In spite of marked and, we hope, permanent industrialisation which has been noted in recent years, the foundation of the Colony's business is still the merchant through whom political business flows from the outside world to and from the mainland.

SEPARATE COMPARTMENTS

I need perhaps not remind Your Excellency that the book-keeping for the average Chinese merchant is divided into two very separate compartments. There is the general recording of transactions with the world at large which is dealt with by the employees of what is known as "the outer counter", but there is an additional set of books which are kept in "the inner counter" by the proprietor or partners of the business maintained under conditions of extreme privacy, to which no employees have access under any circumstances.

We must try to realise that an official invasion of the "inner counter" means to a Chinese business man a great deal more than the disclosure of his business secrets. To understand this we should appreciate that this privacy, which is traditional, has no origin in any attempt to evade taxation or to mislead official inquiry. It is not a question merely of disclosure of business secrets, of sources of supply or of customers, but of the breaking down of a traditional element in business procedure which has been regarded for centuries as a fundamental form of security, and with it would go a degree of confidence which might undermine the whole structure of business life.

BANK SOURCES

It may be said that the assessments would depend only in part on the investigations of books, and that there are considerable sources from which reliable and indisputable information is available. These include income from public investments, public or private companies, from house properties, mortgages, salaries, (which are a matter of record by employers), and all income which is remitted from abroad and which passes through recognized channels such as Banks.

Whilst not agreeing that the proportion of these sources is as large as anticipated, the ability to tax that source does not, unless I misunderstand the situation, provide any encouragement. There arise numerous questions of refunds, rebates and allowances which will have to be considered, as in the vast majority of cases such class of income will not represent the sole sources.

In this Colony, except perhaps in the case of foreign employees, instances must be comparatively few where income is derived merely from a single source. We are, therefore, invariably thrown back, for the purpose of assessment not only of income but of allowances, to investigate each individual case.

THE MIDDLE MAN

As an example of one class of difficulty, I am reminded of the very large proportion of the business transacted in this Colony by what is known as the "middle man" or commission agent, the person who buys and sells not for his own account but passes money after making certain recognised deductions. I would be surprised to hear that the total income from this class of business could be ascertained, with an approximation to accuracy, by inspecting all transactions involved and the records kept by the principals in such transaction. In a large number of cases, neither of the principals carries on business in this Colony. Whilst on this question of commission, it must be well known that in each business, and indeed in many private transactions, there are recognised deductions which are not a matter of record but are, nevertheless, an essential.

It would be interesting to know to what extent the preliminary essentials and qualifications made by the Taxation Committee would have been augmented or emphasised had it been asked to report on this particular subject under the conditions imposed on this Colony through being itself involved in a state of war. I venture to surmise that what little encouragement that Report may have given to the Government for the introduction of the measure now, would have been replaced by a solemn warning against it.

REFUGEE CAPITAL

Attention has been sufficiently drawn to the transitory and migratory nature of the capital—refugee capital, if I may so describe it—which has found its way to this Colony in the last two years. Investment and enterprise, including the transfer of manufacturing plant to Hong Kong, has been stimulated by a profound sense of security and by satisfactory appreciation of the benefits to be derived.

disturbance of the calculations and estimates which have preceded these wartime investments will undoubtedly involve a consideration of alternatives when it should, of course, be our object to retain the advantages which this Colony so sorely needed.

I endorse the remark made by the Hon. Senior Unofficial Member that the unanimous opinion of the Committee and Members of the Hong Kong Chinese General Chamber of Commerce is adverse to the institution of income tax in this Colony. A copy of the Chamber's letter has been sent to Government through the Hon. Secretary for Chinese Affairs.

I will conclude, as I began, with an assurance that the responsible elements of the Chinese community are prepared to assist in every way they can in finding a solution to the urgent and special financial problems with which the Colony is faced.

FIRM CONVICTION

Numerous methods of raising revenue alternative to Income Tax have already been suggested, and in their consideration the Chinese business community desires to be not critical but constructive. No scheme will be attacked on the ground that it inflicts hardship or strain on any portion of the community. But the opposition to the institution of anything in the nature of a tax on income or profits, which I now have formally to record, arises mainly from the firm conviction that the disturbing effect of its introduction and the confusion attendant on its administration will, by doing incalculable harm to business interests, defeat the object which it is obviously the desire of the Government to attain.

FIGURES BY MR. M. K. LO

The Hon. Mr. M. K. Lo said:—My Honourable friend, the Financial Secretary, in his illuminating "Memorandum on the Financial Position 1938, 1939 and the Estimates for 1940-1941", to which I shall have occasion to refer again, remarks:—

"As last year, the revenue for 1940-1941 has been estimated generally on the assumption that the economic activity of the Colony will be maintained at not far short of its present level. This may prove to be over optimistic, especially since the outbreak of the war, but the whole outlook is at present so uncertain that no other firm basis for estimating the revenue presents itself."

With the inevitable dislocations of trade caused by the war, and by the various measures dictated by Imperial war economy, and with new taxation under the proposed War Budget, I confess to a strong feeling that the Financial Secretary's fear that the assumption on which the revenue position is based may be over optimistic will, unhappily, prove only too true. I wish, therefore, to state that, in assenting, as a member of the Select Committee, to the Budget now before the Council, I have paid due regard to the Financial Secretary's statement in this Council on the 12th October, 1939 that the programme of Public Works Extraordinary and also the many items of special expenditure appearing in the individual Heads of Estimates, although approved by this Council and the Secretary of State, would not be automatically carried out if the revenue position did not justify the expenditure.

PLEA FOR CHARITY

The above, Sir, is all that I have to say on the General Budget, except to renew a plea which has already been made by me in the last two successive Budget Debates in this Council. The plea, Sir, is that Government may be kind enough to make a substantial grant for providing charitable and medical relief to the Chinese on account of the Sino-Japanese conflict.

As I have previously pointed out, such relief is in a humanitarian cause which transcends any consideration of mere "profit and loss". But, speaking in this Council on the 13th October, 1938, I was able to show, on the high authority of the Financial Secretary, that in respect of 1937 the revenue benefited to the extent of over \$4,400,000. by the Sino-Japanese conflict. Since then very striking figures have been revealed by the Financial Secretary's Memorandum, to which I have already referred.

Taking, first, 1938. When the Estimate for Revenue was first framed, Revenue was put at just over 30½ million. The actual revenue exceeded this estimate by \$6,480,935.00, and this excess is attributed by the Financial Secretary "to the increase in the activity of the Colony which prevailed during 1938". In the Sino-Japanese conflict, Sir, the revenue has been revealed by the Financial Secretary's Memorandum, to which I have already referred.

(Continued on Page 12)

HONG KONG REVENUE AND CHINA WAR

(Continued from Page 11)
pulation due to the same cause."

NET GAIN
On the other hand, the original expenditure, put at \$33,379,549, exceeded the estimate by \$3,796,349.00. But of this excess the Financial Secretary points out that \$2,203,216.00 was in respect of unallocated stores, loans and Military Contribution, due to changes in the accounting system, leaving an excess of \$1,593,133.00 in respect of all other Heads. But the only items that can fairly be attributable to the Sino-Japanese conflict are Head 22, Medical Department (epidemics and larger population \$229,513.00), Head 29, Charitable Services (relief of refugees \$245,555.00), Head 34, Public Works Extraordinary (construction of refugee camps and acquisition of property \$622,052.00), amounting to \$1,097,120.00.

The nett gain to the Colony is therefore \$5,383,815.00.

Coming, now, to 1939. The original estimated revenue was put at \$36,097,325.00 (including \$839,704.00 transferred from Government House and City Development Fund). Now this estimate was obviously framed on the basis of the continued operation of the same factors which brought about such striking increases to the Colony revenue in 1938. If this argument is sound, as I think it is, then it can be fairly stated that the nett gain to the Colony in 1939 must be approximately the same as in 1938, on the basis of the original estimate, less any increased expenditure which had not been taken into account in the Estimate of 1939 Expenditure. Of the latter, as shown in Table 3 of the Financial Secretary's Memorandum, the only item I can find relates to Head 5, Charitable Services (relief of refugees), in respect of which the excess over original estimate amounts to \$1,241,736.00.

The nett gain to the Colony for 1939, on the basis of the original estimate, is therefore, say, roughly \$5,000,000.00 less \$1,241,736.00, i.e. \$3,758,264.00.

REVISED ESTIMATE
But the revised estimate of revenue of \$40,475,248.00 shows an excess of \$4,377,923.00 over the original estimate, and if the sum transferred from Government House and City Development Fund (\$839,704.00) is deducted from this increase, the increase as shown by the Revised Estimate amounts to \$3,538,219.00.

The total nett increase to the Colony attributable to the Sino-Japanese conflict for 1939 is therefore \$7,296,483.00.

The gain to the Colony in respects of 1937-1939 is ascertainable and, on my calculation, amounts to a total of \$17,080,298.00. The gain for 1940-1941 can only be an estimate, based on the estimated Budget figures.

MORE FIGURES
Coming, then, to the prospective revenue and expenditure of 1940-1941. The estimated revenue, which "has been estimated generally on the assumption that the economic activity of the Colony will be maintained at not far short of its present level", is put at \$50,861,470.00. It is therefore fair to assume that the nett gain to the Colony arising from the Sino-Japanese conflict will not be less than in 1939, namely, \$7,296,483.00, plus a quarter of this amount for the 3 months in 1941—\$1,824,120.00 making a total of \$9,120,603.00, less any increase in expenditure attributable to the same causes not budgeted for in 1939. Of the latter, as shown in paragraph 11 of the Financial Secretary's Memorandum, the only item I can see which is directly attributable to the Sino-Japanese conflict is under Head 5, Charitable Services, which shows an increase of \$224,749.00, being "increased grants to the Tung Wah Hospital and for relief of refugees". Moreover, I note from Part 2 of the Financial Secretary's Memorandum, Head 5, Sub-Head 23, that the amount of \$250,000.00 provided for relief of refugees at the present rate of outlay, will not suffice for more than six months. If, therefore, we increase this amount to, say, \$625,000.00 to cover the whole period of fifteen months, plus the whole increase of \$224,749.00, totalling \$849,749.00, and subtract this total from the nett increase of \$9,120,603.00, the resulting increase to the Colony revenue for 1940-1941 is \$8,270,854.00.

STUPENDOUS FIGURE
If my calculation is right, the financial gain to the Colony arising from the Sino-Japanese conflict, in respect of the period 1937 to the end of March, 1941, comes to the stupendous figure of \$25,351,152.00.

Honourable members may be interested to know that the total subscriptions received up to October, 1939 by the British Fund for Relief of Dis-

tress in China, Hong Kong and South China Branch, amount to \$491,874.70, and that the amount of expenditure already sanctioned comes to \$406,176.11. This Fund, of which Your Excellency is Patron, is non-political, and purely philanthropic. The flow of subscriptions to the Fund seems to be rapidly drying up, whilst calls on its resources are continuous. May I, therefore, venture to express the strong hope that Your Excellency will see fit to making a substantial grant to this Fund as a friendly gesture of the Colony towards the indescribable sufferings of the Chinese?

WAR BUDGET
I now turn to the War Budget. The Prime Minister, in the House of Commons on October 12th, stated—"It is not with any vindictive purpose we embarked on war but simply in defence of freedom. It is not alone the freedom of a small nation that is at stake. There is in jeopardy the peaceful existence of Britain, the Dominions, India and the rest of the British Empire, France, and indeed all freedom loving countries."

This quotation bears eloquent testimony to the force and meaning of Your Excellency's observation in this Council on the same day, that "this is every whit as much our war as it is Britain's". And the complete realization of the implication of this war on the part of the public is reflected in its ready acceptance of and full-hearted co-operation in all the varied measures which Government has found it necessary or desirable to introduce in this Colony, although many, if not all, of them must have a restrictive effect on business. That restrictive effect on the Colony—irrespective of their race and nationality—should have to bear some financial sacrifice, in order that a contribution might be forthcoming to the Inner War Chest, sitting from the point of view of the Colony as a vital part of the British Empire and worthy of a Colony which yields to none in loyalty and devotion to the Crown, is inevitable. Indeed, they should welcome the opportunity of making such a contribution, for it is unthinkable that they would be content to render mere lip service to a cause, the result of which must have such a significance to Civilisation.

LAST WAR
I am certain that there is a complete unanimity amongst all sections of the community on this point. A recollection of the part which the Colony took in the 1914-1918 war—including the splendid response of its citizens to appeals for war charities and war loans, and the voluntary presentation to England of two Service aeroplanes by certain Chinese residents—renders it impossible for anyone to entertain any doubt of the Colony's attitude in this matter.

But I feel it my duty to make it quite plain that, in my view, the reason why the people of the Colony desire so keenly to "do their bit" is because they are animated by sentiments which I have just endeavoured to express, and not because they agree with the statement, which has been made in this Council, that the Colony is lightly taxed, nor because they can regard as otherwise than superficial the comparisons, which have also been made in this Council, between the crushing burden laid on the British tax-payer and the light burden imposed on the Hong Kong tax-payer.

NO DATA
Before coming to the Colony's contribution I wish to deal shortly with both of these points. Sir, there are no data which lead me to think that the Colony is lightly taxed in relation either to the social services available, or to the taxable capacity of the Colony.

I propose to touch on the question of local social services later on in my remarks. In the meantime I must concede that this question is complicated by the peculiar position of the Colony, with its large fluctuating and migratory population.

As regards the taxable capacity of the Colony, it seems to me that an important point which requires expert investigation is as to how much of the Colony's wealth is in the hands of the permanent resident, and how much of it is fugitive and can be driven away by burdensome taxation. From the earliest Hansard which, thanks to my Honourable friend, Sir Henry Pollock, happens to be in my possession—that for 1906—I notice that the estimated revenue for 1907 was under \$1 million. By 1915 the revenue was nearly doubled. In 1920 it nearly reached the 28 million mark, and from then to 1936 it fluctuated between 28 to 35 million. The average yearly revenue for the past 10 years works out at

32½ million. I venture to think that no one who has studied the Budget figures of past years can fail to experience a sense of concern and dismay at the colossal rise in the cost of Government, culminating in this year's 40 million dollar Budget, or to ask himself anxiously whether the Colony's expenditure is not reaching, if it has not already over-reached, the Colony's taxable capacity. Those who care to read the 1906 Budget Debate will find it interesting reading. They will find, too, that the slogan "Hong Kong is lightly taxed" was already current in those early days!

THE OLD DAYS
The estimated revenue for 1907 was \$5,202,135.00, which apparently represented a somewhat serious decline on the previous year's revenue. The following quotation from Sir Matthew Nathan's address gives an interesting historical background of the Colony's revenue position, and constitutes not an unworthy guide to us as to how the Colony's financial difficulties should be met in times of adverse trade or economic uncertainty:—

"Before going into the long array of figures which I have on my notes I think it will meet your wishes if I explain generally how it is proposed to meet that decline. There are three methods open to us. Either to raise further loans, or to increase taxation, or to reduce expenditure. I am strongly averse to raising additional loans at the present time. . . I am also averse to increasing taxation. It has been pointed out to me that this colony is very lightly taxed, and I by no means promise that I shall not on some future occasion propose additional imposts, but a time like the present one when trade is bad does not seem a suitable one at which to add to the burdens of traders. . . There remains a reduction of expenditure, and that is the method which it is proposed to adopt. We must cut our coat according to our cloth. It must necessarily be a simple garment but I hope when I come presently to try it on you, you will agree with me that it is a fairly serviceable one in which the Colony need not feel ashamed to appear next season. It is somewhat of a tight fit, but if we adhere to the estimates we have framed we shall remain in the same sound financial position at the end of 1907 as I am happy to say we shall be in at the end of 1906."

NO COMPARISON USEFUL
As regards comparisons between Great Britain and Hong Kong I submit, Sir, that however flattering it may be to compare the Colony with the Mother Country, the greatest and wealthiest democratic country in Europe, no useful comparison between the two places from the point of view of fiscal incidence can be fairly made, having regard to the radical differences in government, institutions, economic resources and social conditions.

In England the amount spent since the commencement of this century on Health, Education, Housing and Social Services—Unemployment Benefits, Poor Law Relief, Old Age Pension, Industrial Insurance, etc.—amounts to astronomical figures. From the primary school to the university, thence to the highest post in the State, the path is open to the poorest lad with brains. Here is a pen-picture of post-war England by Professor H. A. L. Fisher, in his "History of Europe" (page 1210):—

"At this time the British people bore without repining a burden of taxation heavier than that of any European country. The annual service of the debt charge alone amounted to more than 300 million sterling. Fifteen years after the end of the war the State levied 1s. 6d. in the pound on the income of the tax payer irrespective of the super-tax on incomes exceeding £2,000 a year. Yet it is characteristic of the democratic spirit which prevailed in the country that, despite bad trade and crushing taxation, the level of the social services, higher than that which prevailed in any other country and more expensive, was not seriously lowered. That the health, the education, and the housing of the people should be well cared for was common ground with all parties in the States."

WONDERFUL PROGRESS
We are naturally proud of the wonderful progress which the Colony has made under British Rule within the short space of a century. And yet what is its position to-day? Substantially a non-producing country, the Colony still depends mainly on its being an entrepot for its continued prosperity. Though there are undoubtedly known rich people, and also people whose riches are unknown because concealed, sheer poverty is gen-

eral and widespread. On the question of prevalence of poverty I need hardly dwell, for it is a painful fact, well known to all social workers. Only at the beginning of this year the Honourable the Director of Medical Services, in his inaugural address before the newly reconstituted Nutrition Committee, pointed out that on account of malnutrition, which is a concomitant of poverty, more than one child out of every three died last year before attaining the age of one year, as compared with one in twenty in England. We have no hospitals for children. Indeed, our hospital accommodation is utterly inadequate, and the overcrowding in the Chinese hospitals is, though inevitable, a standing disgrace. The problems of compulsory education (and even of Government-provided primary education), and of juvenile delinquency, are still a long way from being solved.

COLONY'S NEEDS
With thousands of deaths from tuberculosis we have as yet not been able to find the means to build a properly equipped sanatorium. For lack of funds we have not begun to tackle the problem of Slum-clearing. We have no Old Age Pension, no Poor Law. We have no Air Protection for the masses. Since Your Excellency's arrival in the Colony you have spared no effort in providing and increasing social amenities for the Colony in every direction possible, and the Colony owes Your Excellency a very heavy debt of gratitude. But the list of omissions is necessarily still formidable.

As the "South China Morning Post", in its leading article published on the 13th October, 1939, pointed out:—

"The upper ranks of the Government Service are not open to the Hong Kong citizen: he has no vote nor does he enjoy the full privileges of a British subject—his nationality is only stressed for taxation purposes. The Colony is predominantly Chinese. It has therefore a dual allegiance and a dual commitment. These have emphasised themselves in the Far East war that has been raging for two years—a war which has profited some in the Colony, but bled the majority through many economic wounds. No other part of the Empire has suffered this strain."

SENSE OF INJUSTICE
In connection with the above I feel it my duty to give expression to the sense of injustice felt by many of the companies incorporated in Hong Kong which carry on business in Shanghai, Hankow and other parts of China. By the Defence (Finance) Regulation 3B, Government has the right to acquire certain foreign currencies from every British subject (as defined) resident in the Colony, and certain duties are imposed upon such a British subject. By this Regulation "British Subject" includes every company incorporated in the British Empire. During the Sino-Japanese conflict companies of the class I have mentioned have sought protection from the British Authorities; but such protection has always been refused on the ground that such companies, though registered in the Colony, are not entitled to protection. In one case to my knowledge a company incorporated in Hong Kong, which is a "British Subject" as defined by the Regulation, has properties in Canton, Swatow and Tolsan, which were either burned or looted, or both.

I have discussed these points—the lightness of Hong Kong taxation, and the relative burdens between the British and Hong Kong tax payer—not for the purpose of finding excuses for us to try to "get out cheaply," but of showing that, in my submission, we should approach the question of the Colony's contribution to England as a matter of patriotic duty, freed from any self-reproof that we have been too lightly taxed, and untroubled by any comparisons made between Hong Kong and elsewhere. I therefore approach the question in this spirit.

AMOUNT OF CONTRIBUTION
First, as to the amount of the contribution.

It must be appreciated that a gift to Great Britain of seven or eight million dollars, as suggested by the Hon. Financial Secretary, can be only a measure of the Colony's patriotism and of her willingness to "do her bit" as a part of the British Empire. That sum represents only a few hours of the Imperial War Expenditure, and nothing that the Colony can give can be of any material financial assistance to England. This being so, I feel the less reluctant to discuss the question of the proposed gift in relation to the Colony's capacity. A gift of 7,000,000 represents 215 per cent. of the average yearly revenue of the Colony for the past 10 years.

MR. CAINE ANSWERS THE CRITICS

(Continued from Page 12)

of 32½ million. If to this amount we were to add the special Defence expenditure of 2¼ million, and the Military Contribution of 6 million, the total amount would come to \$15,250,000.00, which is 46.9 per cent of the yearly average of 32½ million. I cannot help thinking that the gift is too much for the Colony, having regard both to the Colony's position and to the Imperial needs at the present time. I venture to think that for 1940, and until the Colony's position becomes a little more clarified, the gift to England should not exceed \$3,000,000.

As we are all agreed that the Colony should make the best contribution of which it is capable, the problem confronting this Council resolves itself to one of finding the best means of raising the money.

UNDERLYING IDEA

Since the underlying idea is a free and spontaneous gift by the Colony to England, and not a tribute to be exacted from an unwilling population, the following broad principles should, in my opinion, govern the choice of means:—

(1) That, if possible, the means chosen should not involve a violent departure from the Colony's fiscal policy, which has been in existence for nearly a century; and

(2) That the means adopted should command as much popular approval as possible; at least it should not go counter to deep-rooted and fundamental objections of a substantial portion of the community.

Moreover, it seems to me that the amount of the gift should be subordinated to the means available, based on the above principles, rather than that the means should be adopted in violation of those principles for the sake of obtaining an arbitrarily decided amount. Accordingly I am bound to say that I do not agree with the Government view that the imposition of an income tax is by far the most suitable means to give effect to the natural desire of everyone to bear his just burden for the common cause, for it violates both of the principles I have suggested.

FOR 25 YEARS

There can be no reasonable doubt that views opposed to the introduction of income tax have been consistently held by many people in the Colony for at least a quarter of a century. Moreover, the Chinese opposition to this measure must be well known to Government. When the idea of an income tax was mooted in connection with the 1914-1918 war the then Senior Chinese representative on this Council, the late Mr. Lau Chu Pak, wrote in to Government a strong memorandum against it. My Senior colleague on this Council, on the 10th November, 1938, in anticipation of the appointment and report of the Taxation Committee, expressed himself strongly against it. As a member of the Taxation Committee, which reported to Your Excellency on the 5th April, 1939, I myself sent in to the Committee a memorandum setting out in detail my own objections. Some of the grave doubts which are widely felt as to the possibility of the successful administration of an income tax in the Colony were summarised in the Taxation Committee's report, which include the following:—

"3. The migratory nature of the Colony's population, and the extremely mixed taxable community, with greatly differing standards of living, make Hong Kong unsuited to the tax generally.

4. Many benefits are still to be derived from preserving the Colony as a haven for 'refugee' capital. The Colony's prosperity depends to a large extent on the fact that it is the entrepot of China, a free port, without income tax and without excessive taxation. An unwise fiscal imposition may well upset this precarious prosperity."

"9. Economic and industrial development—particularly of small factories as yet in their infancy—would be seriously affected."

REPORTS QUALIFICATION

The Committee, whilst recommending the introduction of income tax in a certain eventuality "if it be considered that the tax is capable of successful administration in the Colony," felt it necessary to qualify this recommendation in five ways, specified in the report, from which I merely quote two:—

"(a) The possibility of the successful working of the tax should first be the subject of a detailed investigation with the assistance of an expert, preferably familiar with the collection of the tax in an Eastern country.

"(b) We feel that it would be unwise to impose a tax of this nature

until a substantial body of opinion in the Colony believes that the tax can be levied fairly and efficiently."

Should some of the misgivings regarding this proposal, which are indicated in the Taxation Committee's report, prove to be true, then the Colony might well suffer a setback from which it might take her a very long time to recover. At all events it is difficult to imagine a set of circumstances more unpropitious than that now obtaining for trying out an extremely controversial fiscal experiment, with its dangerous potentialities. The Chinese in the Colony, who constitute some 97 per cent of the population, have for over two years, been going through a severe financial strain in order to render badly needed assistance to their Mother Country in her hour of need.

DEPRESSING UNCERTAINTY

That there is a depressing uncertainty in the Colony's whole outlook is the authoritative view of the Financial Secretary himself. The fortuitous increases in the Colony's revenue serve but to cloak the unsatisfactory position of the Colony's economy. The flight to the Colony of "refugee" capital during the last two years or so is due no doubt to Hong Kong being "a free port, without income tax and without excessive taxation." Its maintenance in the Colony depends on a delicate equilibrium of confidence and of opposing and competitive financial attractions and drawbacks, which may easily be upset. With the dislocation and diminution of trade caused by the war, and by the necessary war measures, with unemployment caused by the closing down of enemy businesses; with a "dead" property market, and a "moribund" share market; with a low dollar and rapidly increasing costs of imported goods and a concomitant increase in the cost of living in general, and in face of reduced earnings—the outlook for the Colony is indeed bleak.

I am satisfied in my own mind that the Colony's contribution can be raised by other means without incurring the risk of "killing the goose that lays the golden egg." I may incidentally point out that other alternatives will obviate the expenditure of an annual sum of \$320,000.00 which would be required as administrative charges for the collection of income tax.

NOT SUITABLE

Sir, it is my personal conviction that income tax is not suitable for Hong Kong, and cannot be equitably administered; that administrative charges will be excessively high; that it will cause untold irritation and inconvenience to the public; and that it will do irreparable harm to the Colony. I am therefore opposed to its introduction.

May I, in conclusion, express the strong hope that Government will find it possible to adopt other alternatives, so as to enable the Colony to make, as a humble gesture of its loyalty and devotion to the common cause, a contribution which, though insignificant in terms of sterling and of the Imperial expenditure, should be all the more acceptable to the Mother Country because it has been raised by measures which command general approbations?

FINANCIAL SECRETARY'S REPLY

The Hon. Mr. Sydney Caine, intervening in the debate, said:—The Council has heard three speeches putting very ably certain objections to income tax and it seems desirable that the case which exists on the other side should be stated at this stage rather than at the end of the debate when there will be no opportunity of further rejoinder by any unofficial member. I regret that I shall have to take up a great deal of the Council's time but I do not apologise for it, because the issue is of such importance and complexity that it would be wrong to attempt to deal with it briefly.

In fact I propose, with your permission, to refer not only to comments and suggestions which have been made in this Council, but to others which have been given publicly elsewhere.

If I reply somewhat caustically to some of the suggestions made in the Press I trust that honourable members will realize that I am not suggesting that there are suggestions to which they would lend any support.

Furthermore, any vigour I may use in expressing the case for this measure should be interpreted not as an indication that Government is determined to carry it through against all opposition, but as an attempt to convert opposition which is thought to be misconceived. Finally I want to show that the proposal was not brought forward without a due weighing of its consequences.

ward without a due weighing of its consequences.

GENERAL DESIRE

I start from the assumption which has been so fully confirmed by my honourable friends among the unofficial members that there is a general willingness and desire to contribute substantially to the revenue of the Government in order to enable the Government to lend assistance suitable to the resources of this Colony towards the prosecution of the war. I do not propose, therefore, to deal with the view expressed in some quarters, the upshot of which is that the Colony is not in a position to pay any extra taxation whatever.

I cannot, however, allow to pass quite unanswered the attempt of my Hon. friend Mr. Lo to refute the statement that the Colony is lightly taxed.

That statement is not intended to refer to the obvious fact that the taxation per head of population is a fraction of the taxation per head in the United Kingdom. That is inevitable because the standard of living of most of the population is so much lower.

COMPARABLE INCOMES

What is meant by the lightness of taxation here is a comparison between the taxes paid here and elsewhere by persons in receipt of comparable incomes. On that basis one has only to consider the various taxes one by one; the percentage of rent paid in rates is about one-third of the average in England; tobacco, liquor and petrol duties are lower than in England or in most Colonies; in the United Kingdom there is a general tariff, a standard customs of 10% on all ordinary imports, in nearly all other Colonies there is a similar tariff except that the rate is more often 15% and upwards, while here there is no general tariff at all; death duties are at a lower rate here than in the United Kingdom; Hong Kong has at present no Income Tax, whereas Income Tax in the United Kingdom rises from the standard rate of 7/6 to no less than 17/- in the £ on high incomes, and income taxes at various rates have existed for many years in a number of Colonies. It has been my business for years to study Colonial finances and without burdening the Council with more figures I can confidently assert that I know of no Colony where the general level of taxation in relation to income is lower and no more than one or two where it is as low.

EQUAL WEIGHT

In any case my Hon. friend has not pressed his view to the point of denying that the Colony ought to raise more revenue for war purposes. I cannot emphasise too often the apparently general agreement on that issue because it relieves me of the necessity to answer such objections to Income Tax as that it will injure business by increasing charges and costs.

That must be true of the raising of the same amount of revenue by any other means and if we are weighing income tax against other alternatives, objections of that nature must weigh down each scale equally.

In fact, it is the general opinion of economists and is amply borne out by experience elsewhere, that income tax constitutes less of an addition to the true costs of a business than any other form of taxation.

One other suggestion which has not been put in its extreme form in this Council is that we are absolved from lending any more assistance to the Imperial Government because we make a regular Defence Contribution in peace time.

In effect, Hong Kong is to be in the Empire on a basis of limited liability.

What do honourable members imagine would be the effect if the taxpayer at home had said "we have paid to keep up an Army and Navy in peace time and we shan't pay any more now?" The present war would have been lost by now and if that policy had been pursued in the past there would have been no British Empire and no Hong Kong.

IMPOSSIBLE TO UNDERSTAND

Turning more directly to income tax, a suggestion which has been given a good deal of prominence is that because the Colony is alleged to have been suffering during the last two years from trade depression consequent on the Sino-Japanese hostilities the imposition of income tax would be an intolerable burden. I find that argument almost impossible to understand. I am not going to discuss in detail whether there has been any such trade depression.

The increase in the Colony's revenue by approximately 18% since 1937, the year when the

by practically all the local companies and the analysis made by my honourable friend Mr. Lo in his speech this afternoon will point in an entirely opposite direction.

But if it were true that nobody has been making any profits for the last two years, I cannot see where the burden of an income tax comes in.

The great beauty of an income tax is that if you have no income you pay no tax, if it were really true that the business man and the property owner had been making no profits the only people who would remain liable to income tax would be Government officials, for whom I am surprised to find such active public sympathy.

A POINT TO PONDER

More seriously, the question whether profits are now as large as they were some time ago affects not the equity of the tax but its probable yield. If the gloomier views which have been put forward are justified Government may be disappointed in the yield, but those people who have not been making profits will not be called upon to pay any income tax.

I would interpose at this stage that I can think of no other tax which could equally well be guaranteed to avoid hitting the unfortunate business man who has made no profit.

Another general complaint has been about the alleged unequal incidence of income tax. In this category are included a large number of complaints and objections on matters of comparatively minor detail, such as that the exemption limit is too low or that the personal allowances should be increased, or that other allowances should be given for various kinds of expenses or liabilities. Obviously no objection of principle can exist to making adjustments in those allowances if so advised by the very representative Committee which Your Excellency has set up to examine these and other details.

If I may carry the war into the enemy's camp again, another beauty of Income Tax is precisely that such adjustments can be made in a way which is impossible with any other tax.

PERQUISITES

Questions have also been asked as to whether such and such perquisites of Government officials and others are to be taxed, for example, free houses. Provisions laying down the treatment of such perquisites are contained in the draft bill now being examined by the Committee, and if they are thought to be inequitable they can be changed.

Other inquirers have asked whether the income tax assessment would include the squeeze upon which so many of us, official and unofficial, are popularly supposed to live.

It is the dream of every zealous income tax official that he will some day find a conscientious burglar who will make a full return of the profits of his profession.

I have no doubt that he would similarly welcome a full disclosure from the recipients of a squeeze, but I fear that he will have to wait until those members of the public who claim to possess full information on the subject are kind enough to communicate it to the authorities. The other problems of assessment of income and allowances are primarily matters of the drafting of legislation and will no doubt receive the due attention of the Committee.

EVASION

The third general class of comment relates to evasion. That people will try to evade taxation of any kind is certain, but there are means open to Government for detecting many kinds of attempts at evasion, and this matter also is largely one for discussion by the Committee which is examining the draft legislation. In the course of the long period during which income tax has been in operation in the United Kingdom, a very great variety of methods of evasion have been tried and a great many ways of detecting them have been developed.

I do not suppose that the would-be evaders are going to publish their methods, but at any rate the methods announced by those persons who claim to be au fait with the intentions of the evaders are not different from the ordinary stock-in-trade of the tax dodger all over the world. I have never denied personally that this question of prevention of evasion is by far the greatest problem in the administration of income tax, whether here or anywhere else, but I see no reason why it should be less capable of solution here than elsewhere.

MR. DODWELL ON THE OBJECTIONS

(Continued from Page 13)

in other countries.

We are being constantly told that income tax has failed in this country or that. All I can say is that in those British countries where it exists to-day, that is not the official view, and there has been a steady increase in the number of countries in which income tax exists and in the reliance which is placed upon it in those countries as one of the most important sources of revenue.

OTHER TAXES

There is only one other thing which strikes me in this talk of evasion—it is notorious that other taxes are evaded to a greater or less extent: e.g. import duties on tobacco and liquor are certainly not 100% effective, and from time to time Government is obliged to institute prosecutions for failure to pay, say the stamp duties or wireless licences. It does not occur to anybody, however, to suggest that these taxes should be abolished because they are not quite 100% effective, and if the suggestion is made in the case of income tax I cannot but suspect that it covers some other motive.

A good deal has been made of the alleged enormous expenditure on the collection of income tax. The closest estimate of cost we can now make is something between 3 and 4 lakhs per annum, practically all of which, of course, will be for the staff required. This is in the first place a very small percentage of the expected yield. It will, moreover, in present circumstances be only to a small extent expenditure on new staff since we expect to draw the majority of the staff required from other branches of the Government service whose activities will have to be reduced to some extent and whose leave is, under present arrangements, being drastically curtailed, so increasing the number of available officers.

PRIVATE COSTS

It is objected that the tax will cause a great deal of extra private expenditure particularly in the keeping of accounts and preparation of returns. The ordinary man will not need any expert assistance in the preparation of his returns unless he is seeking to avoid taxation. The officials of any income tax department run on the principles of the British income tax administration will be perfectly willing to give quite honestly any advice which may be required by the individual as regards the allowances to which he is entitled. As to business firms the extra expenses would be small except in the case of firms which do not now keep any accounts at

(The Hon. Mr. Sydney Caine's Speech is continued in Page 21).

A BUSINESS MAN'S POSITION

The Hon. Mr. S. H. Dodwell said:—Though the Budget before us to-day is a heavy one considering the world situation, the explanations given to the Select Committee have satisfied me that it would be false economy not to proceed with the Public Works Extraordinary programme, unless our revenue shows signs of a serious decline. Should this occur, the contingency is satisfactorily covered by the assurance we have received that certain of those works will not be commenced without further reference to the Finance Committee.

At the same time, it is impossible not to be alarmed at the ever-increasing cost of Government, which in my view must continue to increase unless there is a radical change in the principles laid down for conducting the Colonial service. A system which renders it almost impossible to dismiss an unsatisfactory servant, and which adheres tenaciously to the practice of promotion by seniority, is bad enough, but when to this is added the inequality of the terms of service in the different Colonies, which renders most difficult the very desirable transfer of staff from one Colony to another, the Government in my judgment is saddled with three disabilities which would speedily ruin any ordinary business concern.

SUPPLY PURCHASES

As Your Excellency is possibly aware, I have protested before now in this Council against the Government's policy of purchasing practically all their supplies through the Crown Agents for the Colonies, and very little through the local merchants who carry on the Colony's trade. The Government's reply is that the pur-

chase of all Colonial supplies through one central organization is an economic and businesslike procedure, and one which is adopted by all business concerns with branches abroad. In many respects I agree that this answer is unanswerable, and I am quite prepared to withdraw my opposition to the policy, if only the Government would be businesslike in all directions. Some radical change in regard to the three disabilities I have mentioned seems essential, and would so increase the efficiency of the whole services that substantial reductions in staff and overhead would result.

VEKED QUESTION

With regard to this much vexed question of Income Tax, I have listened with great interest to my official colleagues' remarks, and to the very able reply of the Honourable Financial Secretary who, in spite of the disabilities surrounding the transfer of staff that I have just alluded to, has in some miraculous way arrived here, and if I may say so, is most efficiently carrying out the duties of a new broom. He is now quite rightly bent upon sweeping up part of our hard-earned salaries in order to devote them to the prosecution of the greatest of all causes, but he proposes to use a type of broom that some of us don't consider suited to the interests of the Colony.

CHINESE OBJECTION

As one of the business men originally consulted with regard to the imposition of Income Tax, I would say at once that my opposition to it did not arise until I later discovered the serious objections on the part of the Chinese community, who represent such a large proportion of our population.

I was also a little misled by the fact that my Honourable friend, Mr. M. K. Lo, signed the Tax Commission's report, which in spite of its qualifying remarks about Income Tax, I should hardly have expected him to do in face of the very decided views he now expresses.

I am at one with the Financial Secretary in repudiating that idea that the Colony's trade has suffered during the last two years. It has been quite abnormally prosperous, but is now showing very distinct signs of dwindling. During the last war, Hong Kong's trade benefited rather than the reverse, but to-day there is so much Government control of imports and exports and exchange, not as much here as in other parts of the world, and so much uncertainty about the effects of the Sino-Japanese conflict, that it is impossible to form a reliable opinion about the future. In these circumstances, I feel that it is an unpropitious moment to embark upon a doubtful experiment.

BURGLAR REFERENCE

The Financial Secretary has alluded to the success which has attended the imposition of Income Tax in other places, and particularly mentioned the Dutch East Indies, where the Chinese are apparently paying up without demur. His reference to burglars reminds me of the well-known incident that occurred not so many years ago, of the wealthy Chinese merchants in Java who for years had been getting away with a return of 10,000 guilders a year, when his income was probably in the region of a million. The tax collection department at last in desperation raided his office and seized all his books. He promptly engaged an adept burglar, who stole the books from the collector's office and burnt them. He then sued the Government for the loss of the books and obtained damages.

That however may be an isolated case, and in the event of Income Tax being introduced, I hope my honourable friend will not have to resort to such drastic measures.

A CONTRADICTION

I would like now to contradict the impression which seems to be circulating in the Colony that the Committee of the Chamber of Commerce, of which I am one, was neither in favour of making any contribution to the Imperial War Chest, nor of paying Income Tax themselves. Nothing could be further from the truth. The Committee was unanimously in favour of a substantial contribution, their share of which they have no desire nor intention to evade. Only two considerations weigh with the Committee: firstly, will the introduction of Income Tax drive Chinese industrial enterprise and capital away from the Colony and prevent fresh capital and industries coming to it, and secondly, will not the organization for collecting it prove too costly?

CHAMBER'S VIEWS

The Committee's answer to both these questions was in the affirmative.

We attached little importance to the danger of industrial enterprise being driven away from the Colony, for the simple reason that most of it derives considerable benefit from Imperial Preference, but we came to the unanimous conclusion that the risk of a flight of capital was a very real one which should not be taken if our war contribution could be collected in some other way.

In our position as a storage, distributing, and financing centre, with no mineral or agricultural wealth to speak of, we are on an entirely different footing to Ceylon and other Crown Colonies which have introduced Income Tax. Our trade is very largely dependent upon cheap money. In my own experience it has suffered very seriously on many occasions before from flights of capital, when interest rates have risen to 7% and 8% and seriously affected all industry and trade. In the light of the strenuous opposition of our Chinese colleagues who fear that it will have this effect, I personally feel that it might be a dangerous experiment.

MAY DISAPPEAR

This may seem strange advice from one whose Company is registered at Home, pays Home Income Tax and Excess Profits Tax, and on this account was at a serious disadvantage during the last war. Nevertheless, it is my considered opinion unless we can get over the Chinese objections, I recognize that none of us should rightly pass final judgment upon the subject until the Bill is before us and we know its terms.

The Committee now sitting may succeed in devising some method of making it less objectionable to our friends. Under their terms of reference it is difficult to see how this can be achieved, but if it can, then the main objection I have to Income Tax will disappear.

COST OF COLLECTION

There is another point which needs serious consideration before setting up an expensive collection department, which, if it is to do its work thoroughly I fear will almost certainly cost more than the 4 lakhs mentioned by the Hon. Financial Secretary. I doubt if the Government really appreciates how large a proportion of the tax, if applied throughout the Colony, would have to be refunded by the Home Government. I estimate that six large British concerns, apart from the purely local limited companies, would contribute a very substantial proportion of the tax collected from European British companies, and the great majority of their shareholders are in the United Kingdom.

Finally, Sir, I realise only too well that opposition to Income Tax at the present moment sounds extremely unpatriotic, no doubt particularly so to my Honourable friend the Acting General Officer Commanding, and the Services generally, who pay their 7/6d.

BRITONS' ATTITUDE

So far as the European Britons in the Colony are concerned, I am confident that they are fully prepared to accept their responsibility in this matter and that all would gladly make their contribution through the medium of an Income Tax, provided that reasonable allowances are made, and that the tax is for the duration of the war.

From what my Chinese colleagues have said, it is clearly not the payment of the contribution to which they object, but to the method of its collection.

Conceivably of course the danger of a flight of capital may prove an exaggerated bogey. We undoubtedly have a magnificent harbour and many attractions and facilities to counteract the imposition of the tax, but from my thirty years' experience of how little it takes to upset the delicate economic equilibrium of this Colony, I am convinced that there is a grave element of risk, and that in view of the difficulties of trading we are likely to have to contend with, it is one we should not take unless the Committee now in session can make the Bill palatable to the Chinese community.

THE PORTUGUESE COMMUNITY

The Hon. Mr. Leo d'Almada said:—In view of present circumstances I do not propose to criticise the Colony's ordinary budget insofar as its public works expenditure is concerned, because at a time like this, when, as I believe, economy should be the watchword, whatever disappointment one may feel over the programme of public works must be borne in silence. But for the same reason I would be failing in my duty were I to pass over the figures connected with administra-

tion costs.

ASTRONOMICAL COSTS

More than one unofficial member has in past years called these figures astronomical, and the epithet is more apt to-day than ever. One realises that with a growing colony must of necessity come a certain increase in the personnel of administration and consequently in its cost. The objection lies not to this but rather to the fact that in recruiting its officers, Government does not give the Hong Kong man the chance he deserves. I had occasion last year to complain that local men were not employed in the service as much as they should be.

If reform in that direction was desirable then, its need to-day is more evident than ever, on the score both of fairness to the community and of keeping down expense. Government might well consider also the payment on a dollar basis of those of its junior officers who are engaged locally and who, while on probation, are paid in dollars.

In their case there is no justification for an automatic transfer to sterling when they have proved satisfactory.

AMENITIES OF COLONY

Conditions are such all over the world to-day, and the amenities of life in Hong Kong are so much greater than they were say thirty years ago, that such a policy would not result, as might be feared, in discouraging the right type of young man from joining. I am confident that on this much more economical basis, which would mean a saving both in actual pay and in passages, there would still be eager seekers after posts from the ranks of those who have spent their youth here and are the product of our local schools.

INCOME TAX

So much for our ordinary Budget. On the subject of the War Budget I am, like the rest of my unofficial colleagues, strongly opposed to the proposed taxation of incomes for reasons which I shall give later. Before doing so, however, let me make it clear that, as in the case of my colleagues, my objections do not arise from self-interest.

Nor are they voiced on behalf of the Portuguese community. From the personal standpoint, indeed, few measures could be more welcome—it is obvious that the legal profession stands to gain considerably from its introduction, lawyers probably coming next after chartered accountants as persons whose assistance must of necessity be invoked by the taxpayer, whether he be willing or loth to pay.

Were I actuated by selfishness, therefore, I would urge its immediate adoption. As for my community, so far as I can judge from a preliminary examination of the draft bill, the scale upon which it is proposed to base the tax, together with the numerous allowances, ensures that few will be hard hit, apart altogether from the fact that we desire, as does everyone who has enjoyed the protection of the English flag and the privileges of living within the Empire, to help as much as we can in this War.

THREE REASONS

I object to this proposed tax, Sir, for three reasons. The first is the attendant danger, already mentioned, of the flight of capital from this Colony. While not convinced that this is the inevitable result of income tax, I am nevertheless certain that it is a danger well within the bounds of possibility, and once this is admitted, and it cannot be denied, then there can be no question but that a measure involving this risk is one that should be resorted to only when all other means of raising money have been tried and found wanting.

That this is far from the case is obvious from the numerous alternatives suggested to Government by representative and responsible bodies in this Colony, by the press, and by individuals sufficiently alarmed at the prospect to have filled the correspondence columns of more than one local paper during the last few weeks. It must be remembered, as has been mentioned more than once since this tax was first mooted, that it is not being imposed on a colony enjoying a period of normal commercial prosperity.

ARTIFICIAL PROSPERITY

The "prosperity" if so it may be called, of the last two years or so, has been artificially brought about, and no one would care to predict its continuance for any length of time. Our outlook is, at best, uncertain, and the

(Continued on Page 15)

INCOME TAX DEBATE

(Continued from Page 14)

most confirmed optimist cannot pretend that the present state of Far Eastern affairs does not give rise to serious misgivings in our part. Government in these circumstances must do nothing from which may arise a risk to the Colony's future.

I have two other, and these perhaps secondary, objections to income tax. One of them is the strong probability that in a mixed population such as ours, it will be found impossible to administer it equitably, so that while some will bear the full burden of it, others, and they are the vast majority, are so placed, as to be in a position easily to escape it. And there is no reason to suppose that they will not avail themselves of this escape. My third objection is the necessity for the creation of a new administrative department, not only because of the cost but because of its inevitable liability to bribery and corruption. I have in the past criticised the Police and Revenue Departments in regard to this. Prosecutions of members of the departments show that I am justified in my criticisms. An Income Tax Department, once created will quickly earn for itself an unenviable reputation for the same failing.

WILL VOTE AGAINST

These in brief, Sir, are my objections to this proposed tax, and I have voiced them with the less hesitation because in doing so I am echoing the opinions of business men, men with years of experience in the commerce of this Colony, men who have come into more frequent and closer contact with the Chinese business community than any member of Government has come or can hope to come.

Above all, Sir, I am convinced that in voting against this measure I am doing right by our Colony because the Chinese members of this Council, who represent a community without which we could not hope to exist, have expressed themselves strongly against it. When a measure of this kind, and of such vital importance to Hong Kong, meets with opposition from so large and important a section of its population, when that opposition is based, as in this case, not on any unwillingness to contribute towards the cost of the war, but on reasons sincerely advanced, when there are available alternative methods of taxation, less expensive and probably more speed of yield, then, Sir, prudence surely counsels its abandonment.

DEMOCRACY

We are told, Sir, and we like to believe, that this is a war to make the world safe for democracy. If Government, by use of its official majority were to impose upon this Colony a form of taxation against which the representatives of the people, if I may so call the unofficials, have expressed themselves so strongly and so unequivocally, it would be a sad commentary indeed on rule by the people.

MR. T. E. PEARCE'S SPEECH

Coming late in the batting order, and when the innings is about to be declared closed, I rather feel the observations I have to make will not add much weight to the arguments addressed to this Council by the more senior members of the unofficial body. As, however, the Senior Unofficial Member has confined himself entirely to the question of the Special War Budget, I would like to make one or two observations regarding the Ordinary Budget.

I appreciate the fact these estimates were drawn up and completed before the outbreak of the present war, and I also appreciate the fact the Secretary of State has recommended that we should continue with our social services, but I do not interpret in these recommendations that we are to provide for expenditure on a large scale, to the tune of millions, for new and expensive schemes during the present abnormal state of affairs.

In the Financial Secretary's memorandum on the financial position and estimates, we read the following:—

"In view of the uncertain outlook it has been decided to suspend completely all work on the Government House, and no funds for it are to be provided in 1940/41".

NO PESSIMIST

I am no pessimist as far as the future of this Colony is concerned, but I do feel this same policy should have been adopted throughout this Budget, for I maintain and do sincerely suggest that the present is a time for caution and curtailment, and that not only the new Government House but other works, important though they may be, should have been held in abeyance until the atmosphere cleared, and a more normal state of affairs prevail.

It is clear Government has not altogether lost sight of the fact the recent prosperity of the Colony has been due to a number of fortuitous circumstances, due to the Sino-Japanese conflict, for in numerous items of increased Revenue, the explanations repeatedly given are, "Increased population", "Rise in Rentals and less vacant tenements," and such like. Apart from these indications, there is no gainsaying the fact that much of this Colony's prosperity during the last 24 months has been due to the fact it has been a larger clearing house for China's trade than ever before, because of difficulties in other Ports in China. There must, however, come a day when the graph will show a downward tendency, and I hold a strong view that this Budget, coming at a time when the situation is obscure, should have been framed to show a large surplus, which if realised, could have been held in a special reserve, and utilized for the various projects Government have in view. It would surely be more businesslike to postpone these projects and give them consideration when prices of iron, steel and other imported requirements for building return to pre-war and reasonable levels.

MEDICAL DEPARTMENT

I am somewhat alarmed at the tremendous and rapid growth of the Medical Department, and the expenditure it is incurring with its formidable highly paid staff and consequent increasing pensions account. Although it may be heresy, I wonder sometimes whether we can afford this enormous Bill.

As I have frequently referred to expenditure on Air Raid Precautions at meetings of the Finance Committee, I must here again express my scepticism, as to whether the Colony is getting full value for its money.

I cannot believe it was ever anticipated that such a big amount was to be expended, or such a large new department created. I hope the expenditure on capital account for this new department will soon be completed.

I regret that I must level a complaint against the Sanitary Department, on the question of the clean-

(Continued from Page 18)

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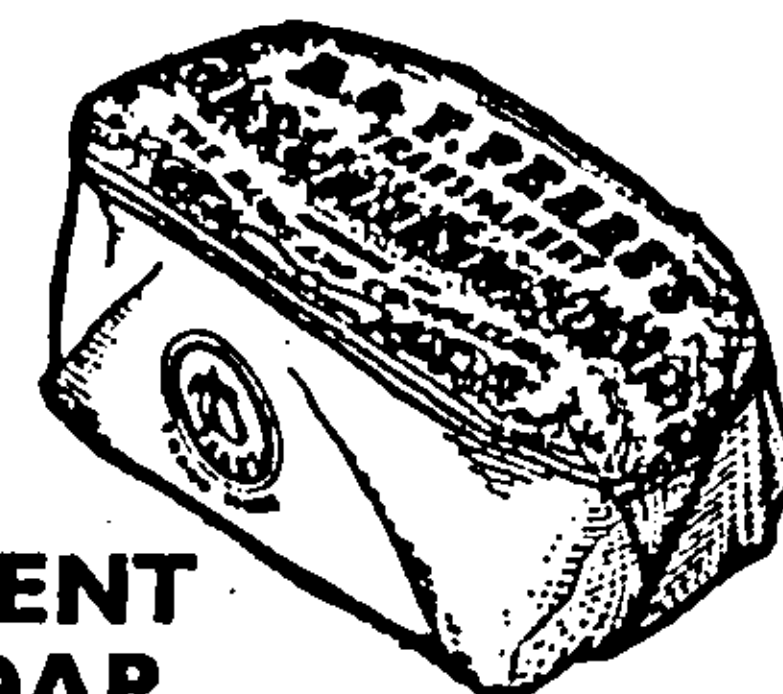


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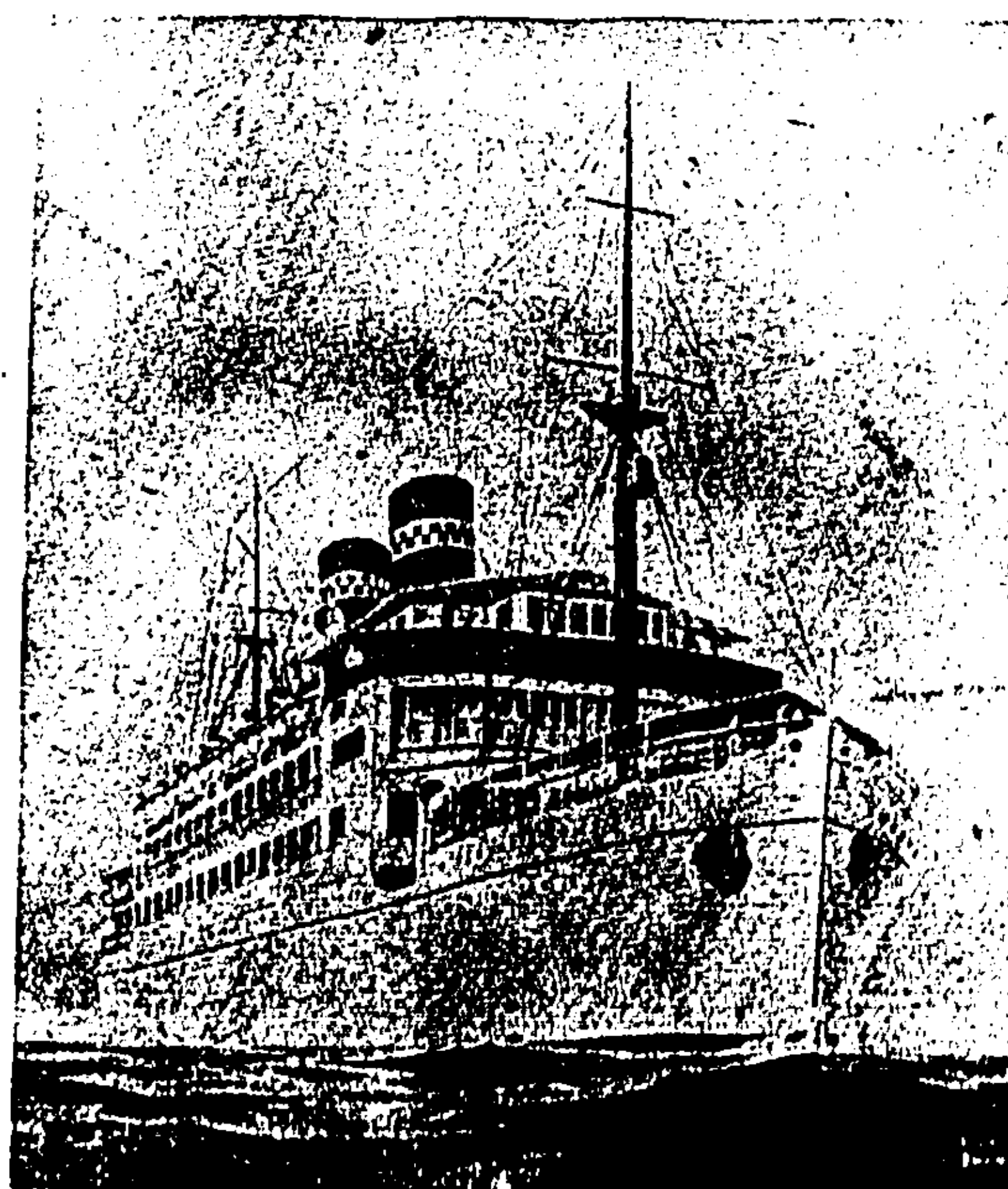
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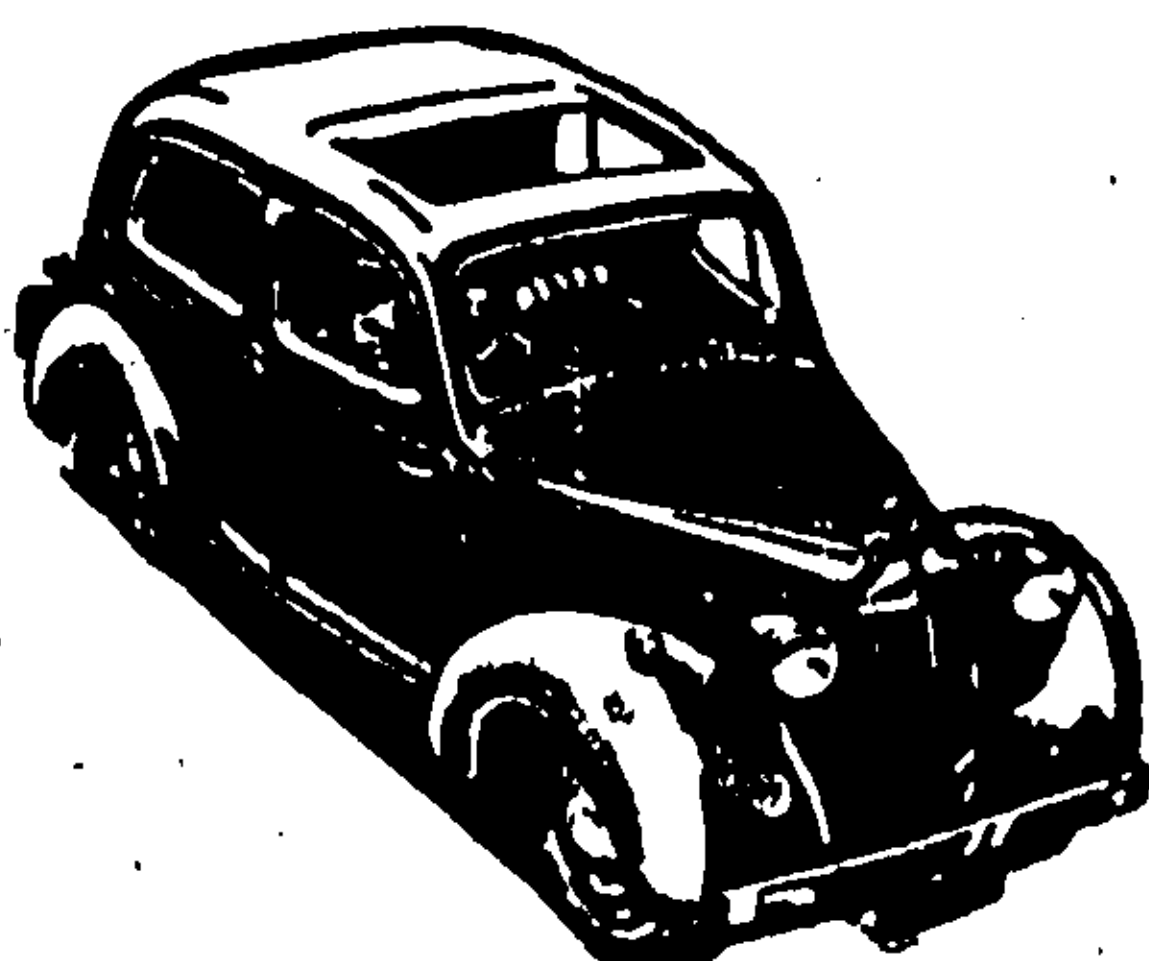
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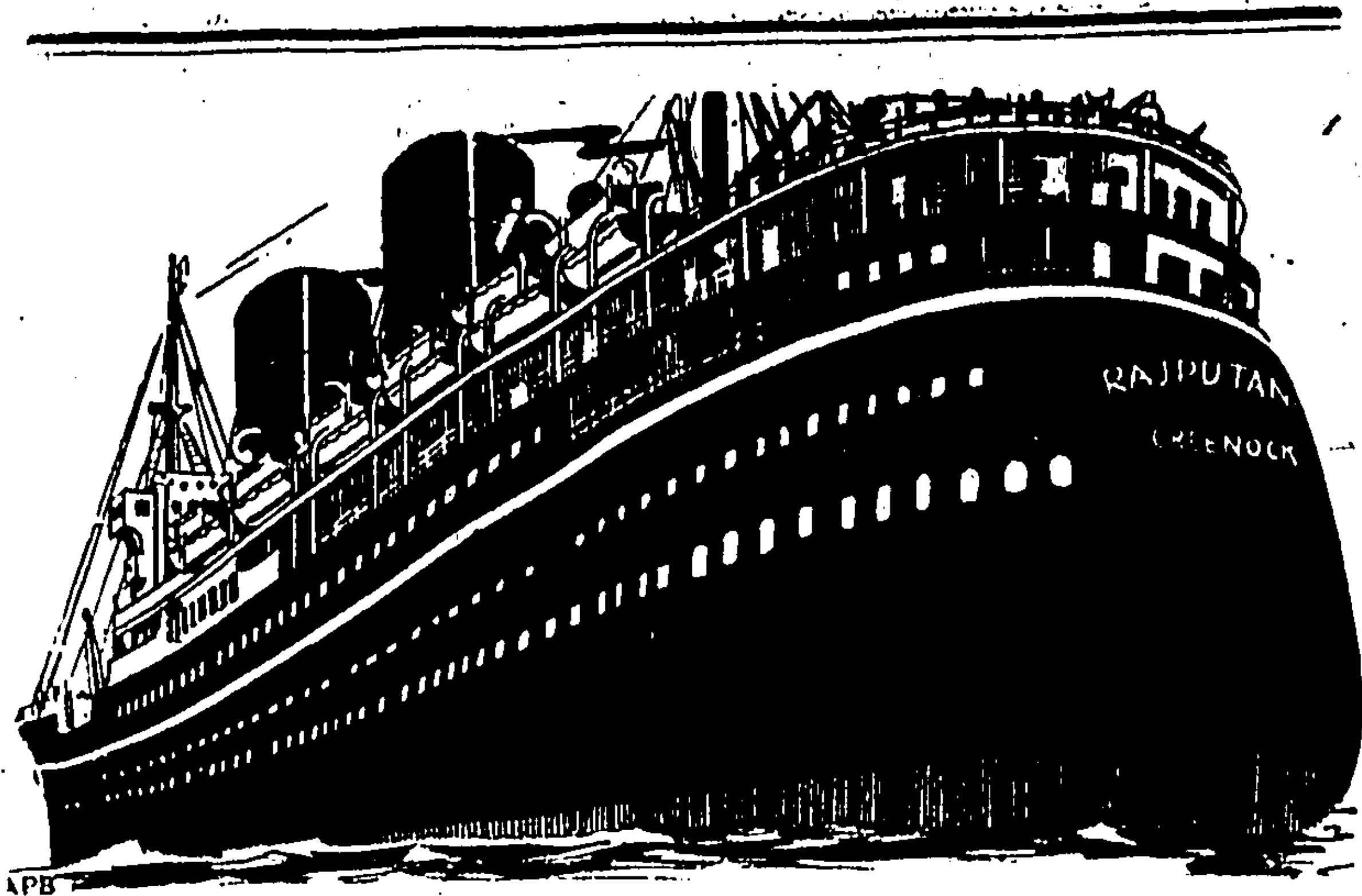
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GERMAN DREAM DEFEATED AT START

THE DOMINATING FACTOR in the war at sea is the failure of the German attack on sea-borne commerce to achieve the results on which the whole of the German war plan hinged.

It was expected that the initial blow at British maritime trade would inflict losses on the scale of the April, 1917, sinkings, thereby causing an acute shortage and a disorganisation of British supplies and industry and causing public consternation calculated to force the British Government to accept German terms for the cessation of war.

Germany expected to achieve this in the first fortnight of the war, before the British had time to organise any efficient defence of her widely scattered maritime interests.

For this reason, Germany had a number of U-boats stationed in the ocean trade routes before the outbreak of the war and the first sinking was within a few hours after the declaration of war.

In the first fortnight of the war, British shipping losses amounted to 27 ships, totalling 151,000 tons.

IN CONTROL

In April, 1917, the losses amounted to nearly 10 per cent of the total clearances and arrivals, whereas the losses in this war was little more than one per cent of the total clearances and arrivals.

By the end of the first fortnight of the war, the British Maritime Trade defence measures were beginning to operate with the result that British losses were greatly reduced.

The average British losses in the last few weeks have been only three ships weekly and these losses are negligible in comparison with the volume of British Mercantile Trade operating amounting to more than 18,000,000 tons.

IN DESPERATION

In desperation Germany sent out the pocket battleships "Scheer" and "Deutschland" to act as commerce raiders, but hitherto these ships have achieved practically nothing.

The reason is probably because of the British grip on supplies, and on German shipping which might act as supply ships.

German U-Boats are now reluctant to attack convoys and fall back on laying mines in navigational channels and off headlands, which is contrary to International law, which demands the announcement of mined areas.—Reuter.

PREMIER'S TALK TO JAPANESE JOURNALIST

London, To-day.

In the House of Commons at question-time yesterday, Mr. R. A. Butler, Under-Secretary for Foreign Affairs, said that Lord Halifax was not prepared to lay as a White Paper the text of the interview recently given to the newspaper "Asahi Shimbun" by Mr. Chamberlain concerning Anglo-Japanese relations.

Mr. Butler said he would consider a request that the text of Mr. Joseph Grew's recent speech in Tokyo be placed in the library of the Commons.

Mr. Noel Baker asked if an assurance could be given that Mr. Chamberlain's declaration was based on fundamental principles of foreign policy.

Mr. Butler replied: Yes. The foreign policy of the British Government is both unified and fundamental.

BELGA AT A NEW LOW LEVEL

New York, To-day.

Sterling continued to weaken under pressure, while the belga reached a new low for six years, due to unconfirmed rumours that Germany might violate the neutrality of Holland and Belgium, according to Dow Jones.—Reuter.

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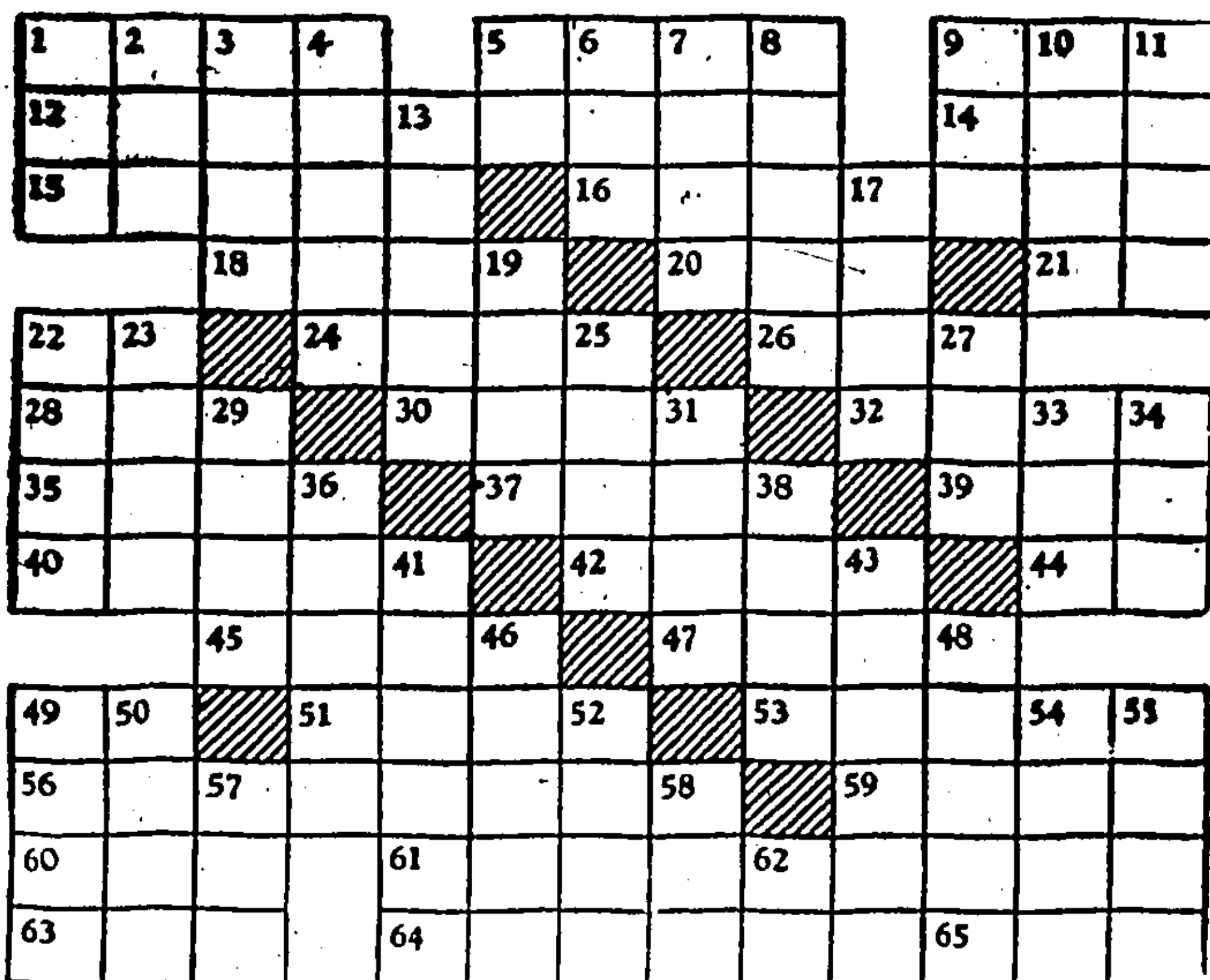
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- 12 Increasing in amount
- 14 Falsehood
- 15 Perforated sheet metal
- 16 Pungent relish
- 18 Benches
- 20 Card game
- 21 Comparative ending
- 22 3.1416
- 24 Harvest
- 26 Uppermost part
- 28 Part of circle
- 30 Regretted
- 32 Prong
- 35 Shelter
- 37 Jump
- 39 To outfit
- 40 Mountain range
- 42 Real estate map
- 44 Preposition
- 45 A pilaster
- 47 Periods of time

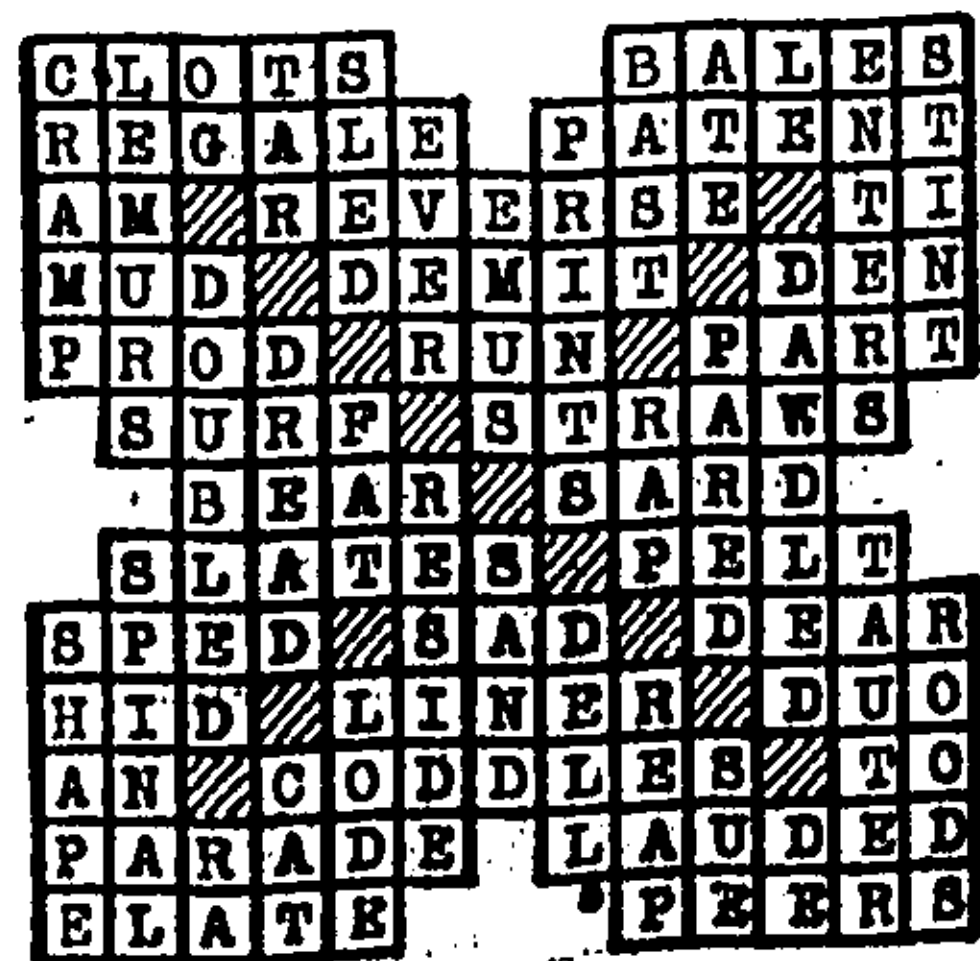
- 49 Pronoun
- 51 Placid
- 53 Coral reef
- 58 Earlier
- 59 Athena
- 60 Western Indian
- 61 Caressing
- 63 Sheltered side
- 64 Exploits
- 65 French: of the

VERTICAL

- 1 Encoe (Fr.)
- 2 Cuckoo
- 3 Pace
- 4 Cut apart
- 5 Pronoun
- 6 Mere taste
- 7 Pertaining to an age (var.)
- 8 Warehouse

- 9 The fourth caliph
- 10 A grain
- 11 Cleave
- 13 More recent
- 17 Under-ground part
- 18 First king of Israel
- 22 Brazilian estuary
- 23 Fetter
- 25 Chirp
- 27 Hole
- 29 Musical passage
- 31 Small valley
- 33 Negative
- 34 Self
- 36 Fortify
- 38 Prefix: beyond
- 41 Gazed steadily
- 43 An Asiatic
- 46 Put in row
- 48 Dense
- 49 Handle roughly
- 50 Heraldry: gratted
- 52 Style
- 54 Unaspirated
- 55 Falls behind
- 57 Pagoda finial
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- 62 Conjunction

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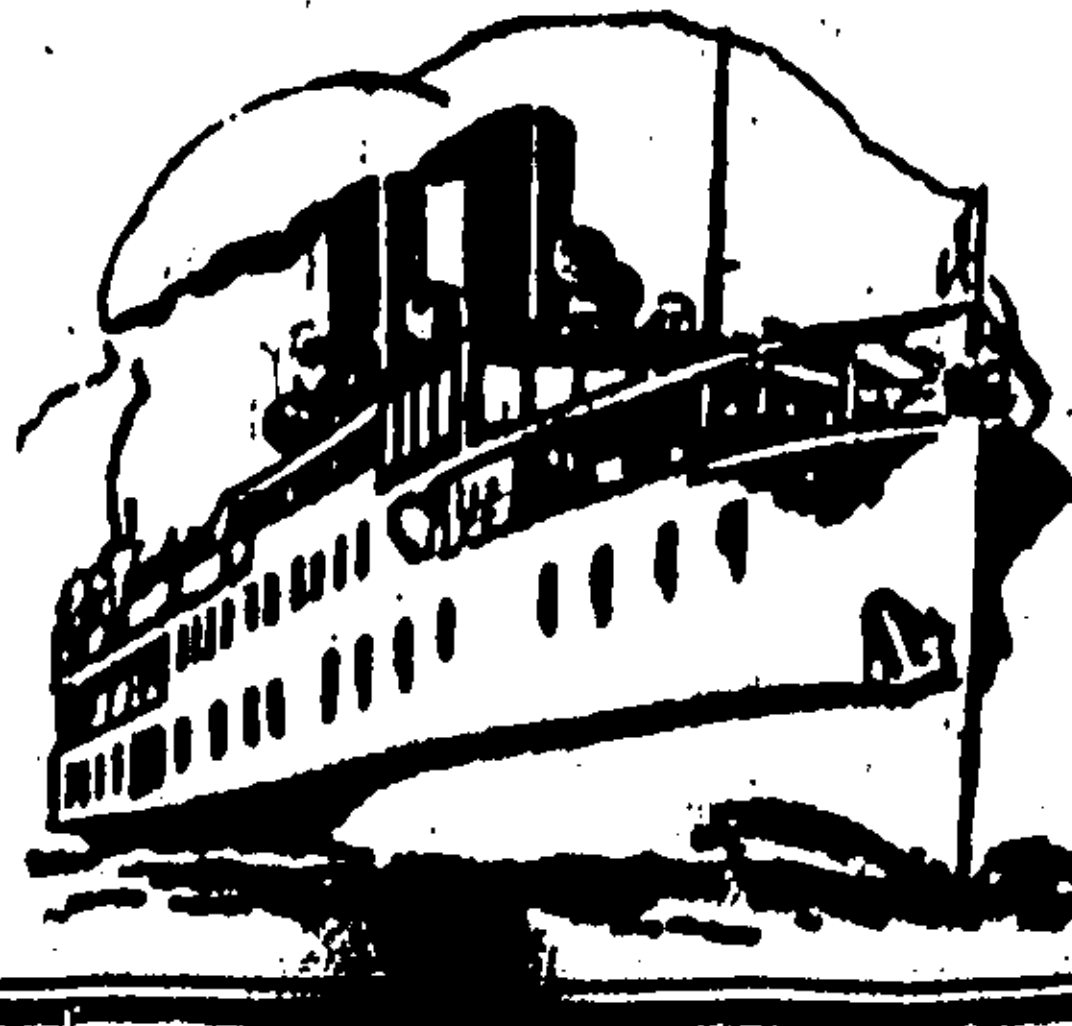
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INCOME TAX DEBATE

(Continued from Page 16)
liness of our streets. I believe there is some difference of opinion in regard to this matter, and also some difficulty in regard to the water supply required. I hope that a satisfactory solution of these differences will be arrived at, for I feel strongly, as do many others, that money will be well spent if our roads and streets are kept in clean condition.

SQUATTER SETTLEMENTS
I must also comment on the Squatter Settlements in various overcrowded districts, particularly the way matched buildings are allowed indiscriminately on the hillsides. I appreciate there are numerous difficulties in the way, but I maintain these settlements are no credit to whoever is responsible for their supervision.

As one who has from time to time voiced criticism, I should be wanting in my duty if I did not make some reference to Pensions, for this is a subject that is constantly discussed in business circles with ever increasing alarm and apprehension.

The Colony is fully justified in its demands that this question be tackled forthwith, and a scheme evolved whereby it will definitely know its total commitments from year to year, and not have to rely upon an estimate in the Annual Budget. I cannot believe there is any better service the Financial Secretary can render this Colony than for him to solve this stupendous problem satisfactorily.

GETTING OUT OF HAND

Although I am not altogether satisfied the pensions already being enjoyed cannot be put on a proper actuarial basis, the future can surely be catered for by the institution of some sound Provident Scheme.

I venture to suggest, Sir, this question is already getting out of hand, and unless dealt with firmly, efficiently and immediately, will be too heavy a load for this Colony to bear.

I hope it will not be long before Government can make some announcement, that an expert is dealing with the whole question.

The Senior Unofficial and other members have dealt at some length with the question of the Special War Budget, and Government proposals to introduce Income Tax to provide funds for this Budget.

INCOME TAX

I confirm, Sir, that it is the considered opinion of the Committee of the General Chamber of Commerce, the introduction of Income Tax will be a hindrance and a deterrent to the future prosperity of this Colony.

As has already been advised to you, Sir, this was the unanimous opinion of that Committee.

The principal reasons for arriving at this decision have already been outlined by the Senior Unofficial member, and by the Hon. Mr. S. H. Dodwell and others, and need not be further elaborated at this juncture. I hope Government will consider the arguments put forward adequate, and will be willing to accept the suggested alternatives, which it is estimated will

bring in a revenue of \$6 to \$6½ million without having to create any expensive collecting organization.

There seems to be abroad in some circles a feeling the British community is unwilling to shoulder its proper responsibilities. I desire to closely associate myself with the remarks made by the Hon. Mr. S. H. Dodwell in this regard. There is no need to add further to them.

There is no reluctance, as far as I am aware, to take our share in the war time responsibility of the Empire, but I do most strongly feel that the financial and commercial interests of the Colony and therefore its future prosperity will be adversely affected by the introduction of a levy in the form of the proposed Income Tax.

MR. LI TSE-FONG ON WAR'S IMPACT

The Hon. Mr. Li Tse-fong said:—The Senior Unofficial Member and other honourable members have spoken very fully on to-day's debate, and as I am a comparatively new member of this Council I have only a few observations to make.

I agree with the Government's policy that there should be as little disturbance as possible with the Colony's current activities and development schemes, and I venture to think that the provisions made for public works extraordinary are by no means extravagant. All works provided for in the estimates for the development of health and education, that would confer common benefit to the community, should be proceeded with without any available delay. I earnestly hope that in the event of Government being called upon to cut down expenditure in order to balance the Budget, this should not be done at the expense of Health and Education.

Although the present is not opportune for me to advocate larger appropriation for the extension of these essential services, I feel that in the matter of education I must call Government's attention to the lack of provision for the building of model vernacular primary schools as recommended by Mr. Burney in his Report issued on May 27th, 1935.

SERIOUS WEAKNESS

In urging Government to give this matter its careful consideration, I will quote the following passage from the Report in regard to primary vernacular education in the Colony:—

"It is a serious weakness in Hong Kong's educational system with result felt through the school career of many of the children that the school in which the primary foundations are laid should be of so poor a quality. This is the more regrettable when it is remembered that for many children education ends at the primary stage. In fact it is evident that the Government's expenditure on Higher (including Secondary) Education is out of proportion to its expenditure on Primary Education. On these grounds it is recommended that the Government should assume as soon as possible larger responsibilities in primary education and the best way of doing this would be to build, as a start, two or three large primary schools in the City of Victoria, staff them only with fully trained teachers, inspect them properly and thus make them fit to serve as models for schools conducted by private enterprises. These new schools should be free, an innovation which would not be very costly since any fees charged could only be small."

PRIVATE SCHOOLS

Some of the schools conducted by private enterprises, I must say, are fine institutions but the general conditions of many others are far from satisfactory. The Community are predominantly Chinese, and as taxpayers they have the right to expect that Government should assume full responsibilities in the primary education of their children. I submit that it is now the general accepted policy of all modern nations to provide at least the primary education necessary for every citizen as a common benefit and to make it free to all the recipients.

This leads me to a consideration of the Board of Education. It was established in 1920 for the purpose of assisting the Director of Education in matters pertaining to the development and improvement of education in the Colony, and has since then remained as a purely advisory body. It is an important body, and I feel that it is time that the constitution of the Board should be reviewed and its function extended. A desirable feature of any new change would be the

(Continued on Page 19)

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INCOME TAX DEBATE

(Continued from page 18)

institution of several select committees with various educational activities fees, on similar lines as the Urban Council for the purpose of dealing with such as registration of private schools, awarding of Government scholarships and recommendations of grants to aided schools.

A.R.P. EXPENDITURE

In the matter of expenditure under Air Raid Precaution I wish to draw the attention of Government to the total lack of provision for shelters for civilians who may be out in the open in time of emergency. I realise the peculiar formations of this Colony that make it almost impossible to provide shelter for everyone, but I venture to think that it may be possible at a small cost to build a number of small underground shelters or in the alternative to strengthen some of the public buildings in the City to provide for such an eventuality.

INCOME TAX

The proposed imposition of Income Tax has been dealt with by honourable members who spoke before me, and I am in agreement with the remarks made by my Chinese Colleagues.

Before I offer my personal observations on this very important matter I wish to say that the Chinese Community, whose views my Chinese colleagues and I have the honour to represent, are not unconscious of the duty of all citizens in this Colony in connection with the present war in Europe. They realise that the Colony should do its utmost to make contributions to the war chest to the full extent of its resources as a token of the Colony's loyalty to the Imperial Government. The Chinese Community are most grateful for the protection and security afforded to them in this Colony and I feel that they will not hesitate to give their support to the Government in any financial measures other than Income Tax in connection with the war. The opposition to the proposed imposition of Income Tax as far as the Chinese Community are concerned, is not based on any political grounds but is entirely for economic reasons.

DAMAGE FEARED

I share the view which has been expressed both inside this Chamber and outside that in view of the peculiar economic structure of the Colony as an entrepot which is apt to be adversely affected by the war in Europe the imposition of this form of taxation at the present juncture may inflict such damage to the vital interests of the Colony that it may not be able for a long time to regain its importance.

In modern countries where industrial organisation is well advanced and the population is well educated and the standard of living is more or less uniform, Income Tax, from the point of view of equity and faculty, is perhaps one of the best forms of taxation. But it is noteworthy to observe in the Taxation Committee Report of 5th April 1939 that even in these modern countries "incessant vigilance is necessary to prevent evasion." In Hong Kong with its peculiar economic conditions and its peculiar composition of population, the task on the part of the Administration to carry into effect such "incessant vigilance" may prove to be formidable and costly.

IMPACT OF WAR

The impact of the war in Europe is beginning to tell on a large section of the Colony's manufacturing industries such as cotton goods, shirts and singlets, rubber wares and shoes, cosmetics and electric torches and batteries, mainly due to increasing cost of imported raw materials and transport. Any further encumbrance which a new impost such as Income Tax may impose upon those industries may compel them to move out of the Colony. What I ask is that the Government should not make it more difficult for these industries to carry on if it can possibly help it.

In the matter of Exchange Control the Government has recognised this Colony's peculiar position and was quite right in applying special treatment to solve that problem. It is therefore logical that on the question of taxation, we are entitled to similar special considerations bearing in mind that any form of taxation which would tend to drive capital and industries away from this Colony should be avoided as far as possible.

NOT SIMPLE TAX

At the present stage, when full details of the proposed Income Tax are

not yet available to the Public, I would only add that Income Tax, being in reality not a simple Tax but a complex system of taxation, is not a desirable form of taxation for this Colony.

There have been many proposals put before the Government as alternative methods for raising the necessary revenue for this war budget. I realise that some of these proposals would place the main burden of the additional taxation on some particular sections of the community but as war measures a certain degree of inequality is unavoidable.

FINANCIAL POSITION

I hope that the Honourable the Finance Secretary will agree with me that the financial position of the Colony is not at all precarious but is, in fact, quite sound. The Colony's surplus at the end of 1939 would probably be more than what is budgeted for in the revised estimate when we take into account the fact that duties on petrol and liquors have been doubled and the increased assessment came into effect on the 2nd half of the year.

In my humble opinion if Government fail to raise the necessary amount of revenue for the requirements of the war budget by means of taxation other than Income Tax, the Government could fall back on the Colony's surplus which, at

\$13,562,235.00 as on 1st January 1939, represents over 33 per cent. of the total ordinary revenue for the whole year.

MR. SHIELDS AND CAPACITY TO PAY

The Hon. Mr. A. L. Shields said:— I have no comments to make on any of the items in the Estimates now before us but would express some concern that the estimated Revenue to meet the Expenditure is based on returns for the current year and in anticipation of these figures being maintained.

While I am in no way despondent about the ultimate future of the Colony I must voice the views held by the General Committee of the Chamber of Commerce that future Revenue may be seriously affected by the continuance of the closure of Chinese ports, the advent of the War which with possible trade restrictions for the conservation of currency, Government interference with the free movement of trade by the use of import and export permits, the stoppage of trade with Germany and the reduction of Steamship space available at much higher freight rates.

The burden of expenditure for cost of Government still grows like the "green Bay tree", Pensions and Emoluments are increasing, we have to provide large sums for social services, Defence etc. and necessary Public Works have to be postponed in spite of our inflated revenue due to unusual conditions which even the most optimistic can hardly expect to continue

without a serious dip in the curve.

LIGHTLY TAXED

The Unofficial Members of this Council welcome the assurances given by Government that a number of the schemes for which preliminary grants have been made will be reduced or deferred if Revenue shows signs of decreasing.

It is true there is always the taxpayer to fall back upon and you Sir stated in your speech on 12th October that this Colony is lightly taxed. Any taxation which can be avoided is an unnecessary burden on the Community. The taxpayer's capacity to pay is not unlimited and in a serious depression such as we have seen periodically, heavy taxation will tend to make the taxpayer fold his tent and imitate the proverbial Arab. It will certainly keep out new capital and new industry, and a vicious circle on the downward track may well cause future Governments much heart burning and anxiety.

CHINA TRADE

When China reopens to normal trade much of the money now here may seek investment and business opportunity elsewhere. The improving facilities in neighbouring ports and the possible provision in these ports of duty free zones will be in direct competition with Hong Kong. It may be said that Hong Kong will always be attractive on account of the security offered but I believe the old order in China is over. The new China will be run by Officials whose increasing patriotism will oblige them to do the best they can for their own

(Continued on Page 24)

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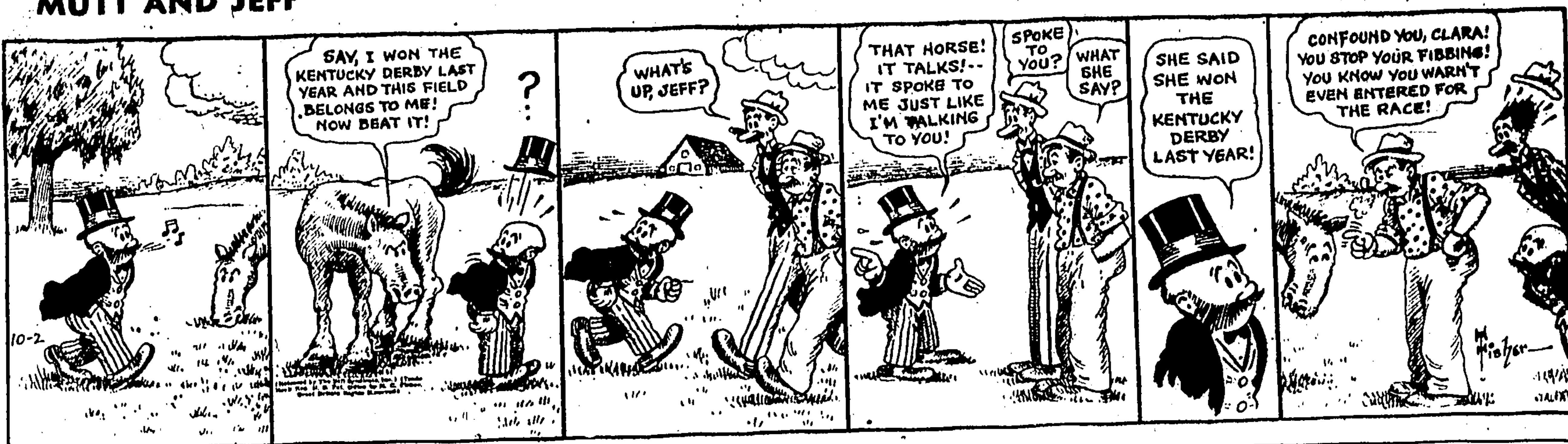
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**Bournemouth
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5.45 p.m.—Studio—Children's Hour.
6.45 p.m.—Closing Local Stock Quotations.
6.47 p.m.—John Goss (Baritone) and the Cathedral Male Voice Quartet. Blow The Man Down; Tom's Gone to Hilo (arr. Terry). Lowlands; Highland Laddie (arr. Taylor Harris). Ten Thousand Miles Away (Willan). Agincourt (Willan); Here's A Health Unto His Majesty (Harris).
7.00 p.m.—The Bournemouth Municipal Orchestra.
Pique Dame, Overture (Suppe). Chanson Triste (Tchaikowsky). The Two Imps (Alford). Dancer Of Seville (Grunow). Le Prophete—Coronation March (Meyerbeer).

To-day's Wireless

ZBW 355 M. (845 k.c.'s) and 31.49 M. 9.52 megacycles)

7.23 p.m.—Songs by Charles Kullman (Tenor). On The Road To Mandalay (Kipling-Speaks). I'm Falling In Love With Someone (Young-Herbert). Serenade (Ravini).
7.35 p.m.—Max Bruch—Concerto No. 1 In G Minor, Op. 26. Yehudi Menuhin (Violin) & London Symphony Orchestra, cond. by Sir Landon Ronald.
8.00 p.m.—Local Time Signal, Weather Report and Announcements.

8.03 p.m.—Swing Music. Dopey Joe; Buck Dance Rhythm.... Slim and Slam. Blue Skies (Berlin).... Maxine Sullivan (Vocal) & Her Orchestra. Love Is Where You Find It (film 'The Garden of the Moon'); They Say.... Mildred Bailey & Her Orchestra with Vocal by Mildred Bailey.

Lady Be Good; Shoe Shine Swing.... Count Easie Quintet. Adios Muchachos; I'm Forever Blowing Bubbles.... Ella Logan (Vocal) with Perry Botkin & His Orchestra.
8.30 p.m.—Harold Ramsay at the Organ. St. Louis Blues (Handy). Rodeo March (Ramsay). Famous Tauber Melodies. Intro: You are my heart's delight; Golden Song; In your arms to-night; Serenade; Villa; Impatience; O Sanctissima.
8.45 p.m.—Studio—Talk on "Life in

England Now".
9.15 p.m.—London Relay—The News.
9.30 p.m.—Four Songs by "Our Gracie" (Gracie Fields). When Summer Is Gone (Harrison & Wilhite); I Got A "Code" In My "Doze" (Fields & Others); I Can't Remember (Berlin); Whiskers And All (Weston & Others).
9.43 p.m.—Billy Russell (Comedian) in "On Behalf Of The Working Classes".
10.00 p.m.—Musical Comedy with Bobby Howes, Binnie Hale and Others "Yes Madam?" With the Hippodrome Theatre Orchestra cond. by Joseph Tunbridge.
10.34 p.m.—Dance Music. Fox-Trots—You Grow Sweeter As The Years Go By; Our Love.... Jack Hylton & His Orchestra. Fox-Trot—Make Those People Sway; Comedy Fox-Trot—Poor Old Flo.... Jack Jackson & His Orchestra. Fox-Trots—Turkey In The Straw; Hot Time In The Old Town Tonight.... Freddie "Schnickelfritz" Fisher & His Band. Fox-Trots—Tiny Little Fingerprints; Sleepy Time In Sleepy Hollow.... New Mayfair Dance Orchestra.
11.00 p.m.—Close down.



(By The Four Aces)

David Bruce Burnstone, Merwin D. Maier, Oswald Jacoby, Howard Schenken... World's leading Team-of-Four, Inventors of the system that has beaten every other system in existence.

A PROBLEM IN PLAY

We wish to present a problem in deduction, which we feel confident our readers will solve. A glance at the bidding will show that East at one stage bid clubs, and South eventually became Declarer at a contract of five diamonds. We are omitting the East and West hands.

South, Dealer

♠ Q 9 7 4 3
♥ A 10 9 6 2
♦ 8 6 5
♣ N
W E
S
♠ A 8 5
♥ A K Q 6 2
♦ Q J 7 5 4
♣ 10 8

The bidding:

South	West	North	East
1♥	Pass	1♠	2♣
2♦	Pass	3♦	Pass
3♥	Pass	4♦	Pass
5♦	Pass	Pass	Pass

West opened the Jack of clubs, which East overtook with the Queen. East next cashed the King of clubs and then shifted to a spade, which South won with the singleton Ace. It is now incumbent upon you, as the South player, to win the remaining tricks in order to fulfill your contract. Before reading our answer, play your play.

The proper play is to lead a diamond from your hand and go up with dummy's Ace, for East is definitely marked with the King. Why? After winning two club tricks why

would East abandon the suit and shift to a spade? There is only one possible answer—East knew that South would trump a club with the diamond Jack and that West would be unable to overtrump. South would then be able to place the diamond King in East's hand. Furthermore, the King was certain to be a singleton, for otherwise East would have had nothing to lose by playing a third round of clubs.

Did you solve it?

Saturday you were Merwin Maier's partner and held:

♠ A 8 5
♥ K 9 7
♦ 7 6 4 2
♣ Q J 8

The bidding:

Maier	Schenken	You	Burnstone
1♠	Pass	(?)	

ANSWER: Your correct bid is two spades. This bid is slightly more encouraging than one notrump. You hope partner will bid again, in which case you will continue.

Score 100% for two spades, 60% for one notrump.

QUESTION NO. 253

David Bruce Burnstone is your partner to-day and you hold:

♠ A x x x
♥ J x x
♦ x
♣ K Q J x x

The bidding:

Maier	Burnstone	Jacoby	You
1♠	2♦	Pass	(?)

What do you bid? Answer tomorrow.

(Released by The Bell Syndicate, Inc.)

SERIOUS CAR ACCIDENT

Five were injured in a serious car accident on the Castle Peak Road, near the Brewery, at 10.30 o'clock this morning. The car in which they were riding ran into a tree.

The car, licence No. 733, contained two men, two women and a child of about 2 years of age, all Chinese. According to preliminary reports, the car was being driven from Kowloon to Un Long when it met a car on the wrong side of the road.

In order to avoid a collision, the driver of car 733 swerved, but hit a tree. The tree was torn up by the roots and the car badly damaged. All the occupants were admitted to hospital, but the extent of their injuries is not yet known.



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MR. CAINE'S SPEECH

(Continued from Page 14)

For those firms I can only suggest that the necessity of compiling accounts for income tax purposes should be a blessing in disguise and not a matter to be regretted.

I might here refute the general apprehension that the keeping of accounts in English and the rendering of returns in English will be obligatory; no such intention has ever existed.

"MYSTERY" ACCOUNTING

The honourable the senior Chinese member has made comments on questions of administration which form the main basis of his object in principle and which I therefore want to comment upon in some detail. First, with all respect, I do not believe in this mystery of Chinese accounting; nothing I have heard of it suggests that it is very different from the system adopted by small businesses in Europe as distinct from the complicated accountancy of big European firms; and the adjustment of such accounts for income tax is common routine.

Secondly, I cannot follow him in his belief that humanity is divided into Chinese and the rest.

The argument that income tax has never been successfully applied to Chinese is appealing, but what are the facts? As to China itself, it is surely obvious that the administration, for reasons I need not elaborate, is too weak to enforce any such tax; but there are other laws which are not enforced in China which we still make a fair show of enforcing here. As to Singapore, I have it on very good authority that the enforcement of income tax was never really seriously pursued. Lastly Mr. Chau has not mentioned one place where a large community of Chinese does, I am reliably informed, pay income tax and where the authorities have developed what they regard as a satisfactory system of examining Chinese accounts, that is the Netherlands East Indies.

MAIN OBJECTIONS

The last main group of objections to income tax are of a kind which Government ought to weigh very seriously, if they are in fact true; i.e., that the imposition of an income tax will drive business and capital away from the Colony.

I may say that before the proposal was brought forward in this Council at all Government consulted certain leading business men and was assured that an income tax at the comparatively low rate proposed would not have any such effect.

I still believe that that advice was entirely sound. Again I would like to remind honourable members that this is a tax on income and not a tax on invested capital as such or on the conduct of business as such. The imposition of income tax will impose no hindrance to the setting up of a business here, and if that business is not successful it will pay no tax. If it is successful I do not think that the man who started it will go away because he finds that he has to pay a proportion of his profits to Government.

Again, that is not true of any alternative tax. Increased rates, a sales tax, higher charges for electricity and telephones would all be burdens on a new business from its very commencement and whether or not it was profitable.

H.K. ADVANTAGES

Hong Kong has had and still has certain advantages to offer to business and manufacture, i.e. security, almost unique harbour facilities, an administration which we can claim to reach a high standard of honesty and impartiality, and freedom from irksome restrictions. These advantages will remain and when some of the wilder talk about the imposition of an income tax has died down I do not believe that the enterprising business man will refrain from coming here to make a profit merely because that profit will not be quite so large as it might have been. It is, however, alleged that the existence or prospect of an income tax will drive capital away from the Colony and is in fact doing so. There are few things about which more nonsense is talked than about capital being removed from a country. The bulk of the capital invested in Hong Kong is invested in property and in plant and equipment of all kinds, for example the cables of the telegraph and electricity companies, which cannot very well be removed from the Colony. All that can happen to such property is that the owner, or if he is dead, somebody else, may move to another country, but however, will remain in the Colony.

Kong income tax if it is imposed, and it is a matter of indifference to Government whether that tax is paid by the existing owner or by somebody else who buys his property from him.

OTHER KINDS

I do not deny that there are other kinds of capital which can be removed. The principal type of such capital is actual cash balances which may be placed on deposit with banks or other financial institutions and which undoubtedly have come to Hong Kong as a temporary safe resting place. It is obvious that a non-resident who holds such deposits in Hong Kong might be tempted to transfer them elsewhere if he had to pay income tax on the interest received from them, and the transfer of such deposits might do the Colony harm. For that reason the Bill which is now being examined by the Income Tax Committee provides that bank interest payable to non-residents shall be exempt from income tax.

It is alleged not merely that the existence of income tax will drive capital away in the future but that the prospect of it is already doing so. I do not know where that information is obtained.

Movements of capital are notoriously difficult to detect and I can only go by such indications as are available. In the first place if a lot of people were selling Hong Kong dollars one would naturally expect the exchange rate to go down, within the limits permitted by our stabilization arrangements; in fact, however, anybody who has dealings in the exchange market will know that the effective market rate has been for many weeks at just about the highest point at which the banks can fix it under those arrangements. That does not indicate any flight from the Hong Kong dollar. Secondly, the returns which Government is now receiving of exchange transactions, details of which it is impossible to publish, do not indicate any such substantial flight.

SHARE MARKET

Thirdly, if a nervous shareholder were trying to avoid payment of income tax on Hong Kong investments he might be expected to sell his shares in Hong Kong companies. In the last four weeks the prices of the principal Hong Kong shares have moved hardly at all; but what movements have occurred show an average increase of about 1½%. These are the only indications from which I personally can form any judgment as to whether capital is leaving the Colony and they suggest that it is not. No doubt I shall again be told that a great deal is going on which Government does not know about and I can only repeat that it is impossible for the Government to know things if the people who claim to have the information do not take the trouble to communicate it.

It is, I believe, asserted in some quarters that our entrepot trade makes income tax unsuitable.

I say asserted because I have never heard any attempt to prove or even explain the statement.

I have heard the echoes of a good many discussions about introducing income tax in various countries and it is curious how unanimous the opponents always are that their particular country is so peculiar that what works elsewhere will not work there; but the common plea is rather the opposite of this particular theory.

USUAL ARGUMENT

It is usually argued that income tax is not suited to agricultural countries but only to trading communities. Government is certainly not lacking in solicitude for the re-export trade, as our reluctance to impose the full system of exchange and import control demonstrates; and it is Governments' view that the nature of our trade does make very undesirable many kinds of taxation and many restrictions, but I cannot see how that trade is damaged by a tax which imposes no hindrance whatever to the free inflow and outflow of goods but merely asks the trader to account in due course for the profits of those transactions.

ENOUGH EXAGGERATION

For these reasons I am very strongly of opinion that the economic consequences of imposing an income tax have been enormously exaggerated. I am more inclined to believe that the same exaggerated claims of disaster have been made in other countries without any having been realized so far as the damage to the trade and kind of business which we have actually

suggested special treatment it is extremely instructive to note that the high rates of income tax prevailing in the United Kingdom have never prevented enormous influxes of money to London when the nervous capitalist in Europe has thought that for the moment London would be a safer place to keep his money in than in any other financial centre. I believe that the capitalist is more interested in the security of his capital than in small variations in the net returns upon it and if the security of Hong Kong can be maintained, which after all is the fundamental reason for our selfish interest in the present war, I do not believe that capital will cease to come here.

Before leaving this aspect of the matter, however, I do want to emphasize that the Government is very ready to consider any modifications in the detail of an Income Tax which will minimise such economic dangers as exist. The Committee on the Bill has in fact already agreed upon one important recommendation with that end and I myself have in mind to propose others, e.g., some special concession to newly established factories. It is therefore possible to hope that whatever foundation those apprehensions had in fact will be further reduced when the draft Bill emerges from the Committee.

ECONOMIC EFFECT

This whole question of the economic effect, moreover, requires examination by comparison with the effect of the possible alternatives to an income tax, which is the last matter I want to discuss. The Government is very willing to consider such alternatives and certainly did not make the present proposal without having already considered a great many. I observe, however, that neither of my Chinese friends has made any specific suggestions for alternatives. I suspect that the honourable Mr. Lo, at any rate, remembers our discussions in the Taxation Committee, on which he rendered such valuable assistance, and fully realises the objections to other methods of taxation which led that Committee to advise unanimously that an income tax was in principle the best method.

Of the suggestions which have been put forward some are extremely wild, such as the proposal to repudiate Government's pension liabilities to the extent of 50%; others would be trivial in yield and expensive to collect, e.g. duties on cosmetics, a system of Government lotteries, etc. Still others while not hard to collect could not yield any very large sums. Among those I would include the suggestions of the honourable and learned the Senior unofficial member for surcharges on electricity, gas and telephone accounts. Of suggestions which are capable of yielding a ready substantial revenue I start with the introduction of a general customs tariff. The cost of a customs department would certainly not fall short of that of an income tax department, and I am sure that I should have the support of all the big business houses in saying that the introduction of such a tariff and the multiple restrictions its collection would entail would do more damage to Hong Kong trade, above all to its entrepot trade, than any income tax.

A DEFECT

It is a very important additional defect of a general customs tariff that it necessarily taxes people according to what they spend, not according to what they receive; and it therefore bears more heavily on the poor man whereas I think we should all agree that any new tax to be imposed should bear more heavily on the wealthier members of the community. That point had been very strongly

urged by the Secretary of State. Precisely the same objection applies to the suggestion of a sales tax, which in addition should expect to be particularly susceptible of evasion and particularly expensive to collect since it would involve detailed scrutiny of the accounts of all businesses including those innumerable small shops whose profits would be too low to bring them within the purview of an Income Tax department.

Proposals which have more to commend them in the way of simplicity are for further increases in the duty on liquor, petrol and tobacco. As regards liquor and petrol the main objection to any such increase is that there is a point at which increased duty leads to diminished consumption, and it is probable that we could not get a very much larger gross revenue from these duties than we expect to get as they now stand. The same applies in principle to tobacco, and there is the additional objection that that duty is in the main paid by the poorer class of the community. In any case it is quite certain that any additional revenue that can be got from these duties would be very much smaller than the amount expected from income tax.

THREE CRITICISMS

The honourable and learned member Sir Henry Pollock has suggested inter alia a tax on dividends on Hong Kong companies. I would submit three criticisms. First, is it equitable to tax the limited liability company and not the partnership, to tax capital invested in local companies and not capital invested in companies registered elsewhere? Second, what is to prevent such companies transferring their registration to Shanghai and paying their dividends there even if the profits are earned in Hong Kong? Third, and most important, it is one of the valid objections to income tax as a war tax that a part of the yield will be paid on income liable to United Kingdom income tax and will be recovered by the payers from the United Kingdom Exchequer; nearly all that income consists of dividends on Hong Kong shares, so that a very high proportion of our receipts from such a levy, probably 50%, would be drawn from the pockets of His Majesty's Government.

Finally, the simplest, and to many people the most attractive, method is to put it on the rates. That is certainly administratively practicable and the primary objection to it is on grounds of equity. It is suggested by many people that the addition to the rates would be borne by the property owner. I confess that it seems to me unfair that he should be expected to pay the whole sum required, while recipients of large incomes from other sources are to be allowed to escape scot-free, and at the same time it seems to be far more likely to prevent further investment of capital in the Colony, if it really is the case that the property owner would pay. In fact, however, I believe that a large part of such an increase in rates would be passed on to the occupier, i.e. once more in the main to the poorest class of the community. Moreover any increase in the cost of living accommodation will merely help to perpetuate the dreadful conditions of overcrowding which we all deplore.

GENERAL OBJECTION

The general objection to all these alternatives is that none of them approaches an income tax in the extent to which it can be adjusted to the capacity to pay of the individual, and, therefore in fairness of the distribution of the necessary burden of taxation. In that connection I suggest that

(Continued on Page 24)



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A. V. WHITE WINS SHANGHAI CHAMPIONS

A. V. White, the Kowloon Cricket Club tennis player, was greeted with a pleasant surprise on returning by Clipper from Manila yesterday.

He was in receipt of a telegram informing him that his White Parade (Alex White up) had won the Shanghai Champions.

ARMY CRICKET.

WEBB'S FINE INNINGS

Playing at the Sookunpoo yesterday, Royal Army Medical Corps beat the 8th Battery, Royal Artillery, by 120 runs in a friendly cricket match. Cpl. Webb hit 16 fours in a dashing innings and Major Swyer 7 fours in his 52.

R.A.M.C.	
Q.M.S. Patterson, c Lomax, b Ward	17
Cpl. Webb, c Hook, b Searle	89
Major Harvey, b Dilnot	4
Cpl. Smith, b Dilnot	3
Major Swyer, not out	52
Lieut. Taylor, b Hook	0
Sgt. Shorthouse, c Thorpe, b Searle	2
Sgt. Wyre, b Searle	0
Q.M.S. Green, lbw., b Searle	4
Cpl. Parkin, b Searle	0
Pte. Bennett, not out	27
Extras (B27, W1, NB3)	31
Total (for 9 wkts. dec.)	229

Bowling Analysis

	O.	M.	R.	W.
Dilnot	8	0	52	2
Ward	5	0	32	1
Hannan	2	0	23	0
Hodgson	2	0	15	0
Hook	5	0	48	1
Searle	4	0	30	5

R.A.

Lieut. Hook, b Harvey	8
L/Bdr. Hodgson, c Bennett, b Wyre	9
Q.M.S. Searle, b Wyre	13
Sgt. Dilnot, c Patterson, b Wyre	20
Lieut. Lomax, b Harvey	21
Gnr. Barrowes, b Harvey	1
L/Bdr. Ward, not out	18
Bdr. Brown, c Shorthouse, b Harvey	0
Ghr. Hannan, c Harvey, b Green	3
L/Bdr. Pearson, c Patterson, b Green	1
L/Bdr. Thrope, b Webb	5
Extras (B8, LB2)	10
Total	109

ENTRANCE FEE REDUCED

At a meeting of the Women's Softball League held in the Brook Club yesterday it was decided to reduce the entrance fee from \$12 to \$9. Another decision was that one ball is to be used for three games and that the captains of both teams will be responsible for the ball.

Bowling Analysis

	O.	M.	R.	W.
Harvey	10	1	23	4
Wyre	9	0	57	3
Green	2	0	9	2
Webb	1	0	10	7

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NEW ERA OPENED FOR TURKEY

(SPECIAL TO "CHINA MAIL")

Ankara, To-day.

The 360 Deputies of the Turkish Parliament yesterday unanimously ratified amid acclamation the Anglo-Franco-Turkish Pact after hearing a speech by the Foreign Minister, M. Sarajoglu.

M. Sarajoglu said: "A similar task unites the three countries, and the treaty marks an essential turning point in Turkey's history."

"Henceforth the three countries' efforts for peace will be most effective and fruitful."

"The document opens for Turkey a happy and fertile era in all directions." — Havas.

PLANES TO BE FLOWN TO EUROPE

(SPECIAL TO "CHINA MAIL")

New York, To-day.

A big American aircraft factory has asked several commercial pilots whether they are ready to accept the task of piloting American bombers from Canada to Britain and France, says the "World-Telegram."

The pilots were warned by their employers that they will automatically lose their status as commercial pilots if they accept the offer, and may be unable to get their jobs back when they return from Europe. — Havas.

ATTEMPT ON LIFE OF HITLER

(SPECIAL TO "CHINA MAIL")

Paris, To-day.

The "Lausanne Gazette" reports that an explosion took place in the famous Beer Cellar at Munich last night, where Hitler had just spoken. Many were killed. — Havas.

Berlin, To-day.

Six were killed and 60 injured in the explosion, which occurred shortly after Hitler had left for Berlin, says the official D.N.B. news agency.

The agency claims that the plot was instigated by foreign agents, and a reward of 500,000 marks is offered for discovery of the instigators.

Hitler left the Beer Cellar earlier than originally intended, as he was summoned back to Berlin by important State business.—Reuter.

Whilst driving a lorry in Connaught Road West yesterday, Fan Lau, accidentally knocked down a Chinese who was later admitted to the Queen Mary Hospital for treatment for injuries.

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OPTICIAN

MR. CAINE'S SPEECH

(Continued from Page 21)

there is something unfair in the criticisms of imperfection which are levelled against the suggested income tax. Because income tax professedly attempts to adjust the burden fairly in a way that no other tax pretends to do it is hotly criticised because it does not reach 100% fairness. I have already suggested that nobody thinks of demanding the abolition of other taxes because they are not free from evasion, and nobody thinks of abolishing the rates because the assessments do not respond exactly with the periodical fluctuations in the actual rents of properties; but for income tax other standards are applied and it is practically suggested that unless we can guarantee 100% efficiency it will be grossly inequitable even to attempt that fair distribution of the burden which is rightly claimed for it.

THE CHOICE

If we are to choose between one kind of tax and another I would ask that we should not make the choice on grounds merely of convenience of administration. It is of very real importance that any tax of the magnitude we are discussing should be levied not merely conveniently but equitably, and should be placed on the shoulders best able to bear it. I believe that no member of this Council will venture to deny that income tax is best fitted to secure an equitable distribution of the burden, and I think it would be discreditable to us all if we were to falter in the attempt to secure that ideal of justice equity because of minor difficulties and expenses of administration. I would like to close by pointing that sentiment with a personal example. It so happens that none of the alternatives which have been suggested here or elsewhere would call for any appreciable sacrifice on my own part; only an income tax will really hit me. The same must be true of many others in the higher income groups. Certainly I could not feel content in alternative taxation were adopted which merely divert to my share of the burden to others less able to bear it.

INCOME TAX DEBATE

(Continued from Page 19)

people. With merchants who are second to none in business acumen and financiers and Bankers who are becoming more experienced in the handling of their Country's affairs, outside traders will have to look to their laurels.

Hong Kong's phenomenal growth was due to the influx of Chinese attracted by the cheap facilities of our free port, low taxation and security.

Let us beware lest we find ourselves with little to offer but security.

Let us look over our stock in trade and see what else we have to offer, the answer is Service but it must be at a competitive price.

Low taxation with its corollary, low cost of living should be the aim of this and future Governments.

STOP PRESS

TEL. 20022 or 33993

Paris, To-day.

According to an unconfirmed report from Munich, Rudolf Hess, Hitler's deputy, was among the victims in the beer cellar explosion, says the Amsterdam correspondent of Havas. — Reuter.

Washington, To-day.

Hitler's "beer cellar" speech is regarded here as removing the last possibility of the Belgo-Dutch peace move having any success. — Reuter.

Amsterdam, To-day.

The King's of Denmark, Sweden and Norway and the President of Finland have telegraphed to Queen Wilhelmina and King Leopold expressing adherence to the Belgo-Dutch peace move. — Reuter.

Helsinki, To-day.

Finnish coastguards have detained the German steamer Blumenthal, on her way from Finland to Germany with a cargo of timber, for using her wireless within neutral territorial waters. — Reuter.

Ankara, To-day.

Speaking in the National Assembly, M. Sarajoglu said that Turkey had the wisdom to unite into a solid bloc under the leadership of the greatest nations at a period when the world is faced with catastrophic events. — Reuter.

Lourenco Marques, To-day.

According to reliable information the German steamer Uhenfels was carrying a cargo of opium valued at £240,000 when she left here on October 18.

It is suggested she may have intended to contact in the Atlantic with a submarine which would take the opium to Germany. — Reuter.

The prefix "Special" to telegrams is used by the "Sunday Herald" and "China Mail" to indicate news which is strictly copyright under the provisions of the Telecommunications Ordinance, 1935, and may not be printed under any circumstances, either wholly or in part, without prior arrangement.

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